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PORT COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO
PORT OF SAN FRANCISCO

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

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JUNE 30, 2000 AND 1999

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

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PORT OF SAN FRANCISCO

October 30, 2000

Ferry Building
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Enclosed for your files are the Financial Statements and Independent Auditor's Report for the Port of San Francisco for the fiscal years ending June 30, 2000 and 1999. We are pleased to report net income of $11.5 million for the fiscal year ended June 30, 2000.

Revenue bond coverage on the Port Commission Revenue Refunding Bonds, Series 1994 is 3.76x for fiscal year 2000 and 3.45x for fiscal year 1999 computed as follows:

($ in thousands)	June 30, 2000	June 30, 1999
Net Income	$11,527	$8,840
Interest Expense	3,595	3,541
Depreciation Expense	6,728	6,393
Net Capitalized Interest Income	(57)	141
Extraordinary Income	(1,759)	(174)
State G.O. Debt Service	0	(291)
Net Revenue Available for Coverage	$20,034	$18,450
1994 Revenue Bond Debt Service	$5,325	$5,349
Debt Service Coverage Ratio	**3.76x**	**3.45x**

If you have any questions about the financial statements or the debt service coverage calculation, please don't hesitate to call me at (415) 274-0442.

Sincerely,

Stephanie Downs

Stephanie M. Downs
Finance Manager

Enc.

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PORT COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO
PORT OF SAN FRANCISCO

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2000 AND 1999

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

Port Commission
City and County of San Francisco
Port of San Francisco

Financial Statements
and
Independent Auditors' Report

Independent Auditors' Report	1
Balance Sheet	2
Statement of Income	3
Statement of Equity	4
Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 30

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

Independent Auditors' Report

THE HONORABLE EDWARD HARRINGTON
CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

We have audited the accompanying balance sheet of the **PORT COMMISSION, CITY AND COUNTY OF SAN FRANCISCO, PORT OF SAN FRANCISCO** (the "Port") as of June 30, 2000 and 1999, and the related statements of income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Hood & Strong LLP

Rodriguez, Perez, Delgado & Co.

October 13, 2000

Port Commission
City and County of San Francisco
Port of San Francisco

Balance Sheet (In Thousands)

June 30,	2000	1999
Assets		
Current Assets:		
Cash and investments, held in City Treasury - Port operating fund	$ 43,233	$ 41,041
Cash outside City Treasury	5	5
Receivables - Net	12,103	7,845
Materials and supplies	1,149	1,226
Prepaid insurance and other assets	291	300
Total current assets	56,781	50,417
Restricted Assets:		
Cash held in City Treasury:		
Lessee deposits	2,774	2,484
Capital outlay	2,453	6,803
Cash and investments, held by Trustee - Bond interest and redemption	9,643	9,577
Other - Lessee deposits	1,095	1,111
Total restricted assets	15,965	19,975
Property, Plant, and Equipment - Net	220,176	211,738
Other Assets	8,565	5,586
Total assets	$ 301,487	$ 287,716
Liabilities and Equity		
Current Liabilities Payable from Current Assets:		
Accounts payable and accrued liabilities	$ 10,336	$ 8,927
Current maturities of long-term obligations	2,437	2,400
Accrued interest payable	213	220
Total current liabilities	12,986	11,547
Current Liabilities Payable from Restricted Assets:		
Current maturities of revenue bonds	3,085	2,930
Accrued bond interest payable	1,197	1,274
Lessee deposits	3,869	3,595
Deferred grants	12	38
Total payable from restricted assets	8,163	7,837
Deferred Revenue - Net of current portion	4,243	4,433
Long-term Obligations - Net of current maturities	48,841	53,653
Total liabilities	74,233	77,470
Equity:		
Contributed capital	26,015	21,101
Revaluation of property	56,063	56,063
Retained earnings	145,176	133,082
Total equity	227,254	210,246
Total liabilities and equity	$ 301,487	$ 287,716

The accompanying notes are an integral part of this statement.

Port Commission
City and County of San Francisco
Port of San Francisco

Statement of Income (In Thousands)

Years Ended June 30,	2000	1999
Operating Revenues:		
Commercial and industrial	$ 30,287	$ 28,331
Parking	6,548	5,320
Cargo	2,462	1,986
Fishing	1,329	1,239
Ship repair	1,000	959
Harbor services	817	790
Cruise	689	362
Other maritime	1,562	1,609
Other	1,335	2,145
Total operating revenues	46,029	42,741
Operating Expenses:		
Operations and maintenance	29,052	26,820
Depreciation and amortization	6,728	6,393
Total operating expenses	35,780	33,213
Operating income	10,249	9,528
Other Income (Expense):		
Interest and investment income	3,098	2,687
Interest expense	(3,595)	(3,541)
Other non-operating income	485	2,137
Other non-operating expense	(485)	(2,137)
Gain from fire insurance settlement	1,759	174
Gain (loss) on disposition of assets	16	(9)
Total other income (expense)	1,278	(689)
Net income	$ 11,527	$ 8,839

 The accompanying notes are an integral part of this statement.

Statement of Equity (In Thousands)

Years Ended June 30, 2000 and 1999

	Contributed Capital	Revaluation of Property	Retained Earnings	Total Equity
Balances as of June 30, 1998	$ 20,347	$ 56,063	$ 123,675	$ 200,085
Capital grants	322			322
Other contributions	1,000			1,000
Depreciation on fixed assets acquired from or constructed through capital grants and other external sources that reduces contributed capital	(568)		568	
Net income for the year ended June 30, 1999			8,839	8,839
Balances as of June 30, 1999	21,101	56,063	133,082	210,246
Capital grants	5,481			5,481
Depreciation on fixed assets acquired from or constructed through capital grants and other external sources that reduces contributed capital	(567)		567	
Net income for the year ended June 30, 2000			11,527	11,527
Balances as of June 30, 2000	$ 26,015	$ 56,063	$ 145,176	$ 227,254

The accompanying notes are an integral part of this statement.

Port Commission
City and County of San Francisco
Port of San Francisco

Statement of Cash Flows (In Thousands)

Years Ended June 30,	2000	1999
Cash Flows from Operating Activities:		
Cash received from tenants for rent	$ 39,508	$ 35,377
Cash received from customers	5,631	5,512
Deposits received from tenants and customers	593	556
Cash paid to employees for services	(16,297)	(13,839)
Cash paid to suppliers for goods and services	(3,837)	(4,124)
Cash paid for quasi-external transactions	(7,251)	(5,581)
Customer deposits returned	(303)	(413)
Net cash provided by operating activities	18,044	17,488
Cash Flows from Noncapital Financing Activities:		
Proceeds from operating grant	50	600
Operating grant expended	(26)	(624)
Proceeds from disaster assistance	1,329	925
Earthquake and storm damage repair expenses	(1,936)	(1,401)
Net cash used for noncapital financing activities	(583)	(500)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of property, plant and equipment	(11,992)	(7,986)
Dredging costs incurred	(3,536)	(1,891)
Additions to Waterfront land use plan	(221)	(204)
Capital grants received	1,735	297
Contributed capital other than from grants		1,000
Net insurance proceeds from fire casualties		174
Proceeds from loan	413	
Payment fom City for real property rights		8,524
Principal payments on long-term debt	(5,347)	(5,185)
Interest payments on long-term debt	(3,477)	(3,249)
Interest expense capitalized	(8)	(264)
Interest income capitalized		202
Proceeds from sale of materials	16	18
Net cash used for capital and related financing activities	(22,417)	(8,564)
Cash Flows from Investing Activities:		
Interest income received	3,450	2,870
Investments sold (purchased) by Trustee	5,361	(5,361)
Net cash provided by (used for) investing activities	8,811	(2,491)
Net Increase in Cash and Cash Equivalents	3,855	5,933
Cash and Cash Equivalents:		
Beginning of year	54,549	48,616
End of year	$ 58,404	$ 54,549

 The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands) (Continued)

Years Ended June 30,	2000	1999
Noncash Noncapital Financing Activities:		
Earthquake damages and expenses included in accounts payable and accrued liabilities	$ 203	$ 183
Noncash Capital and Related Financing Activities:		
Building (tenant) improvements financed by rent credits	446	528
Acquisition and construction of property, plant and equipment included in accounts payable and accrued liabilities	2,890	370
Acquisiton of equipment under capital lease	200	
Noncash Investing Activities:		
Change in fair value of cash and investments held in City Treasury	$ (296)	$ (364)
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Operating income	$ 10,249	$ 9,528
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,728	6,393
Change in allowance for doubtful accounts	(52)	46
Net change in deferred revenue	(532)	(187)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(305)	(220)
Materials and supplies	77	(146)
Prepaid insurance and other assets	699	153
Increase in:		
Accounts payable and accrued liabilities	890	1,777
Lessee deposits	290	144
Net cash provided by operating activities	$ 18,044	$ 17,488
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:		
Cash and investments held in City Treasury - Port operating fund	$ 43,233	$ 41,041
Cash outside City Treasury	5	5
Cash held in City Treasury:		
Lessee deposits	2,774	2,484
Capital outlay	2,453	6,803
Cash held by Trustee - Bond interest and redemption (see Note 2)	9,643	4,216
	58,108	54,549
Add - Change in fair value of cash and investments held in City Treasury	296	
Cash and cash equivalents	$ 58,404	$ 54,549

The accompanying notes are an integral part of this statement.

Note 1 - Significant Accounting Policies:

Organization:

The Port of San Francisco ("Port") is an enterprise fund of the City and County of San Francisco ("City"). Only the accounts of the Port are included in these financial statements. There are no component units that should be considered for inclusion in the Port's financial reporting entity.

A five-member Port Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included as a component of the City's Comprehensive Annual Financial Report.

Prior to February 1969, the Port was owned by the State of California ("State") and administered by the San Francisco Port Authority, a State agency. In February 1969, the Port was transferred in trust to the City under the terms and conditions specified in the State statutes of 1968, Chapter 1333 ("Burton Act"), as amended, and ratified by the City's voters in November 1968.

Under the terms of the Burton Act, the State Legislature reserved the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust, provided that the State would then assume all lawful obligations related to such lands.

The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Substantially all of the Port's property rental customers are located within the boundaries of the City.

Note 1 - Significant Accounting Policies (Continued):

Basis of Accounting (Continued):

The Port's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Port applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Investments:

The Port reports its investments at fair value based upon quoted market price. Fair value is defined as the amount that the Port could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short term investments are reported at cost (or amortized cost), which approximates fair value.

For purposes of the statement of cash flows, all unrestricted and restricted cash and highly liquid investments with maturities of three months or less, when purchased, are considered to be cash equivalents. In addition, the Port considers its deposits with the City Treasurer (see Note 2) to be demand deposits and therefore cash for the purposes of the statement of cash flows.

Materials and Supplies:

Materials and supplies are used for construction and maintenance of Port facilities and are stated at cost, on a first-in, first-out basis.

Restricted Assets:

Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. The funds are held by the bond trustee.

Note 1 - Significant Accounting Policies (Continued):

Restricted Assets (Continued):

Capital outlay funds are restricted for use in construction, acquisition of equipment, and earthquake repairs, due to restrictions from federal and state grant agreements and bond resolutions.

Property, Plant and Equipment:

Land transferred to the City in February 1969 is stated at an amount which includes an increase over historical cost of $56,063,000. This amount was recorded by the State in prior years to reflect appraised values in 1929 and is reflected separately in the statement of equity.

Other property, plant and equipment is carried at cost or at fair market value at the date received in the case of property received by donation or by termination of a lease. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. Land improvements (principally pavement and pier promenades) with a cost of approximately $16 million are not depreciated because, in the opinion of management, the assets will be maintained to provide indefinite useful lives. Building (tenant) improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the related lease. Maintenance and repairs are expensed as incurred.

Interest paid on bond funds used for construction purposes, less interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, if applicable, is capitalized from the date of borrowing through the construction period.

Other Assets:

Bond issue costs are amortized using the straight-line method over the life of the bond. Original bond issue premiums are offset against the related debt and amortized using the straight-line method over the life of the bonds.

Note 1 - Significant Accounting Policies (Continued):

Other Assets (Continued):

Loan issue costs are amortized using the straight-line method over the outstanding term of the loan.

Dredging costs are amortized using the straight-line method over the estimated useful period ranging from one to seven years.

Waterfront Land Use Plan (Plan) costs are amortized using the straight-line method over an estimated life of 20 years. The Plan was approved by the City Board of Supervisors in September 1997.

Deferred Revenue:

Deferred revenue consists primarily of rent credits issued to customers. Deferred revenue is recognized in accordance with the lease agreements.

Refunding Debt:

The Port's revenue bonds were refunded in 1994 (see Note 7). The difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a reduction of the bonds payable. The amount is being amortized on a straight-line basis over 15 years.

Contributed Capital:

The Port, at various times, receives federal and state grants and funds from other external sources for construction of waterfront facilities. The funds are recorded as contributed capital. Depreciation recognized on assets acquired from or constructed through capital grants and other external sources is closed to the appropriate contributed capital account.

Note 1 - Significant Accounting Policies (Continued):

Environmental Expenses:

The Port incurs costs associated with environmental clean-up which arise during the normal course of business. These costs are recorded as a liability when the Port is required to perform the cleanup and the costs can be reasonably estimated.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications and Presentation:

Certain reclassifications of prior year's balances have been made to conform with the current year presentation. The reclassifications have no effect on financial position or results of operations.

Note 2 - Cash and Investments:

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments as part of the City's pool of cash and investments. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of risk associated with the City's pooled cash and investments.

Note 2 - Cash and Investments (Continued):

Cash and investments, reported at fair value, at June 30, 2000 and 1999 are as follows (in thousands):

	2000	1999
Cash and investments with City treasury	$ 43,233	$ 41,041
Cash outside City treasury	5	5
Restricted assets:		
Cash and investments with City treasury	5,227	9,287
Deposits and investments outside City treasury:		
Lessee deposits	979	996
Cash and investments held by bond trustee	9,643	9,577
	$ 59,087	$ 60,906

Cash deposits consist of the following (in thousands):

	June 30, 2000		June 30, 1999	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand				
Federally insured deposits	$ 918	$ 917	$ 935	$ 934
Collateralized deposits				
Uninsured and uncollateralized deposits	66	66	66	66
	$ 984	$ 983	$ 1,001	$ 1,000

Lessee security deposits are held on behalf of the Port by third party trustees and invested in renewable certificates of deposit. One security deposit for $166,000 exceeds the federal insurance limit.

Note 2 - Cash and Investments (Continued):

At June 30, 2000 and 1999, cash and investments held in reserve and for debt service payments by trustee consist of:

	2000	1999
	(In thousands)	
Reserve Fund:		
U.S. Treasury Obligation Fund	$ 5,361	
Six-Month Treasury Bill		$ 5,361
Debt Service Funds:		
U.S. Treasury Obligation Fund	4,282	4,216
	$ 9,643	$ 9,577

Investments, other than the six-month Treasury Bill held at June 30, 1999, may be withdrawn on demand and meet the criteria of cash or cash equivalent for cash flow statement purposes. At June 30, 2000, all investments held by the bond trustee are in a money market mutual fund.

Note 3 - Receivables:

At June 30, 2000 and 1999, receivables consisted of:

	2000	1999
	(In thousands)	
Trade accounts receivable	$ 3,593	$ 3,320
Less allowance for doubtful accounts	(228)	(280)
	3,365	3,040
Federal and state disaster assistance receivable	2,760	3,479
Grants receivable	4,085	389
Insurance proceeds receivable	980	
Accrued interest receivable	601	657
Other receivables	312	280
	$ 12,103	$ 7,845

Note 3 - Receivables (Continued):

As discussed in Note 14, the federal and state disaster assistance receivable principally represents the excess of approved federal and state assistance relating to the Loma Prieta earthquake over assistance and insurance amounts received to date.

Note 4 - Property, Plant and Equipment:

At June 30, 2000 and 1999, property, plant and equipment consisted of:

	2000	1999	Estimated Useful Life (Years)
	(In thousands)		
Land and land improvements	$ 116,866	$ 116,866	
Buildings, structures and related improvements	210,412	209,321	5 - 59
Furniture, machinery and equipment	9,088	7,869	2 - 25
Total	336,366	334,056	
Less accumulated depreciation	(143,975)	(137,820)	
	192,391	196,236	
Construction work in progress	27,785	15,502	
Total	$ 220,176	$ 211,738	

Total interest cost was $3,393,000 and $3,634,000 for fiscal years 2000 and 1999, of which $8,000 and $264,000 was capitalized, respectively. Total interest earned was $3,394,000 and $3,253,000 for fiscal years 2000 and 1999, of which $0 and $202,000 was capitalized in 2000 and 1999, respectively.

The cost of fully depreciated assets still in use was approximately $83,018,000 and $80,634,000 at June 30, 2000 and 1999, respectively. Buildings, structures and improvements include pier substructures, which have an estimated useful life greater than 50 years. Such long-lived assets total $20,226,000 as of June 30, 2000 and 1999.

Note 5 - Other Assets: At June 30, 2000 and 1999, other assets consisted of:

	2000	1999
	(In thousands)	
Deferred debt and loan issue costs - net	$ 765	$ 853
Dredging costs	4,861	1,862
Waterfront land use plan	2,760	2,683
Other deferred costs	179	188
	$ 8,565	$ 5,586

Note 6 - Accounts Payable and Accrued Liabilities: At June 30, 2000 and 1999, accounts payable and accrued liabilities consisted of:

	2000	1999
	(In thousands)	
Accounts payable	$ 4,830	$ 3,003
Current portion of deferred revenue	839	735
Accrued liabilities	1,974	1,543
Accrued payroll, compensated absences and related costs	2,693	2,340
Accrued earthquake related expenses (see Note 14)		1,306
	$ 10,336	$ 8,927

Note 7 - Long-term Obligations: Long-term obligations at June 30, 2000 and 1999 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2000	Balance 1999
			(In thousands)	
Revenue bonds	4.70 - 9.00	2010	$ 39,386	$ 42,202
General obligation bonds	4.50 - 6.30	2003 - 2005	4,400	5,600
Loans payable	Variable	2008 - 2028	10,394	11,181
Capital lease	6.31	2005	183	
Total long-term obligations			54,363	58,983
Less current maturities			(5,522)	(5,330)
Net long-term obligations			$ 48,841	$ 53,653

The following is a summary of changes in long-term obligations for the years ended June 30, 2000 and 1999 (in thousands):

	Revenue Bonds	General Obligation Bonds	Loans	Capital Lease	Total
Balances as of July 1, 1998	$ 44,887	$ 7,085	$ 12,081		$ 64,053
Additional obligations					
Current maturities, retirements and other decreases	(2,685)	(1,485)	(900)		(5,070)
Balances as of June 30, 1999	42,202	5,600	11,181		58,983
Additional obligations			413	$ 200	613
Current maturities, retirements and other decreases	(2,816)	(1,200)	(1,200)	(17)	(5,233)
Balances as of June 30, 2000	$ 39,386	$ 4,400	$ 10,394	$ 183	$ 54,363

Note 7 - Long-term Obligations (Continued):

The annual requirements to amortize all outstanding long-term obligations are as follows (in thousands):

Year Ending June 30:	Bonds	Capital Loans	Lease	Total
2001	$ 6,837	$ 1,894	$ 47	$ 8,778
2002	6,764	1,796	47	8,607
2003	6,693	1,836	47	8,576
2004	5,764	1,745	47	7,556
2005	5,794	1,654	25	7,473
Thereafter	26,715	4,462		31,177
Total debt service	58,567	13,387	213	72,167
Less - interest	(14,781)	(2,993)	(30)	(17,804)
Total liability - June 30, 2000	$ 43,786	$ 10,394	$ 183	$ 54,363

Note 7 - Long-term Obligations (Continued):

Bonds:

Bond obligations at June 30, 2000 and 1999 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2000	Balance 1999
			(In thousands)	
General Obligation Bonds:				
City and County of San Francisco - Harbor Improvement 1971:				
Series A	4.50	2003	$ 2,400	$ 3,200
Series B	6.30	2005	2,000	2,400
Total General Obligation Bonds			4,400	5,600
Revenue Bonds:				
Series 1994	4.70 - 9.00	2010	40,415	43,345
Total Revenue Bonds			40,415	43,345
Total Bond Obligations			44,815	48,945
Less:				
Current maturities			(4,285)	(4,130)
Unamortized Revenue Bond Series 1994 bond premium			389	433
Deferred amount on refunding			(1,418)	(1,576)
Net Bond Obligations			$ 39,501	$ 43,672

Note 7 - Long-term Obligations (Continued):

Bonds (Continued):

In 1994, the Port issued $53,610,000 in Revenue Refunding Bonds, Series 1994 with an average interest rate of 5.8 percent to refund $49,975,000 of outstanding 1984 Revenue Bonds, Series A, B and C with an average interest rate of 8.4 percent.

The refunding resulted in a difference between the reacquisition price (principal of the old debt plus call premium) and the net carrying amount of the old debt of $2.36 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2010 using the straight line method.

Under the terms of the Revenue Refunding Bonds, Series 1994 Indenture, the Port is required to deposit with a trustee in a reserve fund, an amount equal to the lesser of (a) maximum debt service accruing in any year during the life of such bonds, (b) ten percent (10%) of the proceeds derived from the sale of Series 1994 Bonds, or (c) 1.25 times the average annual debt service due with respect to Series 1994 Bonds. At June 30, 2000, the Port was in compliance with this bond indenture requirement.

While Series 1994 Bonds are outstanding, the Port may not create liens on its property essential to operations, dispose of any property essential to maintaining revenues or operating the Port, and must maintain specified insurance. The Port may issue additional bonds under the 1994 Indenture provided the Port complies with the Additional Bonds Test, as defined in the indenture.

Covenants of the 1994 Indenture include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees, and charges for the use of Port property and for services rendered by the Port so that the Net Revenue, as defined in the bond indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2000, the Port was in compliance with such bond covenants.

Note 7 - Long-term Obligations (Continued):

Bonds (Continued):

The revenue bonds are secured by a pledge of Net Revenues of the Port, as defined by the bond indenture. Certain general obligation bonds issued by the City are subordinated to the revenue bonds and any future senior lien revenue bonds.

The Series 1994 Revenue Bonds are subject to an arbitrage rebate requirement. The requirements stipulate, in general, that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. Estimated arbitrage liability was $6,000 and $0 as of June 30, 2000 and 1999, respectively.

Loans:

The Port has entered into a commercial loan agreement for $12 million to finance certain capital projects. The loan is subordinate to all bonds payable by the Port. The loan interest rate (7.09% at June 30, 2000 and 5.81% at June 30, 1999) adjusts with the LIBOR rate. The Port purchased an interest rate cap, which mitigates the interest rate risk associated with a variable rate loan. The maximum rate the Port will pay is 8.5%. The loan is secured by a lien on and security interest in Net Revenue as defined in the loan agreement. Covenants of the loan agreement include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port so that Net Revenue, as defined in the loan agreement, less the annual debt service on the Revenue and City Bonds in each fiscal year will be at least equal to 115% of aggregate annual debt service for such fiscal year. At June 30, 2000, the Port was in compliance with such loan covenants.

Note 7 - Long-term Obligations (Continued):

Loans (Continued):

The Port has also entered into a loan agreement with a State Agency to borrow up to $3.5 million to finance a certain capital project. The loan is subordinate to all bonds payable by the Port. Interest will accrue at a rate of 4.5% per annum on the unpaid balance commencing with the first draw on the loan. The term is 30 years from the date of the first draw, which occurred in April 1998. The loan is secured by Gross Revenues as defined in the loan agreement. If the project is not completed by August 2002, all loan moneys expended prior to such date will become a current obligation of the Port and payable to the lender. Other operating conditions apply once the project has been completed.

Loans at June 30, 2000 and 1999, consisted of:

	2000	1999
	(In thousands)	
Commercial loan payable to a bank, quarterly installments of $300,000 plus interest through July 2008	$ 9,900	$ 11,100
Loan payable to State Agency, payments commencing August 1, 2002	494	81
Total loans payable	10,394	11,181
Less current portion	(1,200)	(1,200)
Net loans payable	$ 9,194	$ 9,981

Capital Lease:

In 1999, the Port entered into a lease purchase agreement for certain equipment. This lease arrangement is accounted for as a capital lease. At June 30, 2000, equipment under this lease arrangement totaled approximately $200,000 and accumulated amortization on those assets totaled $10,000.

Note 8 - Operating Revenues - Property Rentals: Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. Property rental revenues were comprised as follows:

	2000	1999
	(In thousands)	
Minimum rentals	$ 32,306	$ 30,392
Percentage rentals	7,749	6,366
	$ 40,055	$ 36,758

Minimum future rental income under noncancellable operating leases having terms in excess of one year are as follows:

Year Ending June 30	(In thousands)
2001	$ 22,414
2002	18,538
2003	16,563
2004	15,288
2005	14,615
Thereafter	247,978
Total	$ 335,396

The approximate cost of property subject to operating leases and property held for lease at June 30, 2000 consist of:

	(In thousands)
Land and land improvements	$ 52,552
Buildings, structures, and related improvements at cost, less accumulated depreciation of $129,941	60,940
Total	$ 113,492

Note 9 - Non-Operating Income (Expense):

Other non-operating income and expense consisted of:

	2000	1999
	(In thousands)	
Non-operating income:		
Federal and state earthquake assistance	$ 459	$ 1,513
State and local grant for water transit study	26	624
	$ 485	$ 2,137
Non-operating expense:		
Earthquake damages and expenses	($ 459)	($ 1,513)
Passthrough grant expense	(26)	(624)
	($ 485)	($ 2,137)

Note 10 - Employee Benefit Plans:

Retirement Plans:

City and County of San Francisco:

Plan Description - The City has a single-employer defined benefit retirement plan (Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The plan covers substantially all full-time employees of the Port along with other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 1155 Market Street, 2nd Floor, San Francisco, California 94103 or by calling (415) 554-1520.

Funding Policy - Contributions are made to the basic plan by both the Port and employees. Employee contributions are mandatory. Employee contribution rates for 2000 and 1999 varied from 7% to 8% as a percentage of covered salary. The Port is required to contribute at an actuarially determined rate. No Port contributions were required for the years ended 2000, 1999 and 1998 as the actuarially determined contribution rate as a percentage of covered payroll was 0%. The Port's contributions to the Retirement System on behalf of its employees amounted to $1,021,000, $930,000 and $856,000 for the years ended June 30, 2000, 1999 and 1998, respectively, which was equal to the required employee contributions for those years.

Note 10 - Employee Benefit Plans:

Retirement Plans (Continued):

State of California:

Plan Description - The Port also contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. Certain employees who commenced their employment at the Port prior to February 1969 are eligible to participate in PERS. Benefit provisions and all other requirements are established by state and city ordinances. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy - Participating employees are required to contribute 7 percent of their salary to PERS. The Port is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by PERS actuaries and actuarial consultants and adopted by the Board of Administration.

There were no contributions required in 2000 and 1999. The Port's contributions to PERS totaled approximately $4,000 for 1998. The City's Comprehensive Annual Financial Report contains disclosures for all covered City employees. Amounts for the Port are not separable from the City totals.

Deferred Compensation Plan:

The City offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Note 10 - Employee Benefit Plans (Continued):

Deferred Compensation Plan (Continued):

In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the deferred compensation plan assets pertaining to the Plan are no longer included in the City's financial statements. Previously, the assets of an eligible IRC 457 plan were considered the property of the City and the assets of the plan and related liability to plan participants were reported in an agency fund on the City's financial statements.

The amounts deferred by Port employees totaled $763,000, $625,000 and $556,000 for 2000, 1999 and 1998, respectively.

Health Care Benefits:

Health care benefits of Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port's contribution, which amounted to approximately $502,000, $448,000 and $406,000 in fiscal years 2000, 1999 and 1998, respectively, is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The cost of providing benefits for the retirees is not separable from the cost of providing benefits for the active employees. The Port's liability for both current employee and post retirement health care benefits is limited to its annual contribution.

Note 11 - Related Party Transactions:

The Port receives services from, and provides services to, various City departments. The cost of services received, included as operating expenses in the financial statements, was approximately $6,306,000 in 2000 and $6,526,000 in 1999. Services provided, included in operating revenue, amounted to approximately $3,490,000 and $3,114,000 in 2000 and 1999, respectively. Receivables relating to such transactions are disclosed in Note 3.

Note 11 - Related Party Transactions (Continued):

In accordance with a guaranteed payment agreement for parking fine revenues collected from Port property, the Port received $1.2 million from the Department of Parking and Traffic in 2000 and 1999.

Note 12 - Fire Insurance Proceeds:

Insurance was in force to cover fire damage to the Port's property at Pier 48 and Pier 43. On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower.

Through June 30, 2000, the Port has received interim insurance payments of $5,500,000 for Pier 48 and $250,000 for Pier 43. As disclosed in Note 3, receivables at June 30, 2000 include $730,000 for approved construction repairs at Pier 48 and $250,000 at Pier 43. The gain recognized as other income in the statement of income ($1,759,000 and $174,000 for the year ended June 30, 2000 and 1999, respectively) represents proceeds received or receivable for construction repairs. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it should be entitled.

Note 13 - Commitments, Litigation and Contingencies:

Commitments:

The Port is presently planning various development projects which involve a commitment to expend significant funds. The Port had firm purchase commitments at June 30, 2000 for approximately $15,718,000 for capital projects and $897,000 for general operations.

Note 13 - Commitments, Litigation and Contingencies (Continued):

Litigation:

The Port is a defendant in various lawsuits and claims; most deal with personal injury or property damage resulting from accident or fire and are covered by insurance. In the opinion of counsel the likelihood of an unfavorable outcome is probable in some of the suits and, accordingly, accrued liabilities include the aggregate amount of deductibles under applicable insurance policies. However, a number of the lawsuits are in the discovery stages and counsel to the Port cannot express an opinion as to the possible outcome of such litigation. Port's management believes that the ultimate resolution of such matters is not expected to have a material effect on the Port's financial position or results of operations.

Contingencies:

Risk Management:

The Port is subject to various risks of loss including general liability, property and casualty, workers' compensation and employee health and accident. The Port carries commercial insurance for all risks of loss except workers' compensation and employee health and accident. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not recorded claims, is provided by the City. The workers' compensation liability as of June 30, 2000 and 1999 has been evaluated by an independent actuary.

Note 13 - Commitments, Litigation and Contingencies (Continued):

Changes in the reported liability reserves for 2000 and 1999 resulted from the following activity:

	General Liability		Workers' Compensation	
	2000	1999	2000	1999
	(In thousands)			
Beginning of the year	$ 200	$ 150	$ 790	$ 733
Current year claims and changes in estimate	111	54	564	307
Claim payments	(61)	(4)	(280)	(250)
End of year	$ 250	$ 200	$ 1,074	$ 790

The general liability and workers' compensation liability are included in accrued liabilities in the financial statements.

Grants:

Certain grants and federal and state emergency assistance that the Port receives are subject to audit and final acceptance by the granting agency based upon their review of costs incurred. Port's management does not believe that such audits will have a material impact on the financial statements.

Environmental:

The Port has been ordered by the California Regional Water Quality Control Board to close certain landfills with a water unimpregnable surface. Under an agreement with The Bay Conservation Development Commission, one of the pier sites has been developed as a park and wetland area. The Port estimates the cost to close the remaining specified landfills to be in the range of $3.5 to $4.5 million.

Note 13 - Commitments, Litigation and Contingencies (Continued):

Environmental (Continued):

The Port has identified certain other environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination. The Port may be required to perform certain clean up work if it intends to develop or lease the property, or at such time as required by the city or state. The Port estimates such costs to be in the range of $1 to $2 million.

Note 14 - Earthquake Damages:

The Port suffered damage from the Loma Prieta earthquake which occurred October 17, 1989. All damaged property and infrastructure have been identified and over $26.5 million has been expended to complete earthquake-related repairs through June 30, 2000. These repair costs do not include seismic upgrades, retrofitting or other improvements.

The Port has been granted $27,750,000 in Federal and state emergency assistance of which $25,002,000 has been received to date. At June 30, 2000, the Port has recorded a receivable in the amount of $2,748,000, which represents the final remaining balance of Federal and state assistance due to Port for repair costs and related expenses. The final payments were received in July 2000.

During 1999 representatives from the Federal Emergency Management Agency (FEMA) completed a close-out review for funding of the Port's earthquake related projects. Following the completion of all the projects in 2000, the Governor's Office of Emergency Services conducted its final inspection. The close-out review and final inspection resulted in the reimbursement of additional costs claimed by the Port and in a reduction of operating costs which were previously incurred. Expense abatements of $884,000 were recorded in 2000 and $768,000 in 1999.

Port Commission
City and County
of San Francisco
Port of San Francisco

June 30, 2001 and 2000

Financial Statements

and

Independent Auditors' Report

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Hood & Strong LLP
Certified Public Accountants

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

PORT COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO
PORT OF SAN FRANCISCO

JUNE 30, 2001 AND 2000

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

Port Commission
City and County of San Francisco
Port of San Francisco

Financial Statements and
Independent Auditors' Report

Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 7
Financial Statements:	
Balance Sheet	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10 - 11
Notes to Financial Statements	12 - 32

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co.
Certified Public Accountants

Independent Auditors' Report

THE HONORABLE EDWARD HARRINGTON
CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

We have audited the accompanying balance sheet of the **PORT COMMISSION, CITY AND COUNTY OF SAN FRANCISCO, PORT OF SAN FRANCISCO (the Port)** as of June 30, 2001 and 2000, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 - 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP Rodriguez, Perez, Delgado & Co.

October 8, 2001

Management's Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Port of San Francisco's basic financial statements, which can be found on pages 8 - 32 of this report. The Port of San Francisco (Port) is an enterprise fund of the City and County of San Francisco (City). As explained further in Note 1 to the financial statements (page 12), the City has elected to implement Statement No. 34 of the Government Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34). The Port is an integral part of the City and these financial statements are included as a component of the City's Comprehensive Annual Financial Report. More information concerning the Port's organization and the basis of presentation is also contained in Note 1. Only the accounts of the Port are included in these financial statements.

The Balance Sheet presents information on all of the Port's assets and liabilities, with the difference between the two reported as "net assets." Increases and decreases in net assets serve as a useful indicator of the financial position of the Port. Comparative information of the Port's financial position is presented as of June 30, 2001 and 2000.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's net assets changed during the most recent two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected rents from tenants and earned but unused vacation leave).

The Statement of Cash Flows presents information about the cash receipts and cash payments of the Port during the most recent two fiscal years. This statement shows the effects on the Port's financial position of its cash and noncash operating, investing, capital, and financing transactions. When used with related disclosures and information in the other financial statements, the information in the Statement of Cash Flows helps readers assess the Port's ability to generate net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 12 - 32 of this report.

Following is a presentation of certain condensed financial information derived from the basic financial statements.

Condensed Financial Information – Port of San Francisco

Comparative Net Assets (in thousands)

	2001	2000
Current and other assets	$ 105,948	$ 81,311
Capital assets	238,936	220,176
Total assets	344,884	301,487
Long-term debt obligations	50,949	54,363
Other liabilities	24,351	19,870
Total liabilities	75,300	74,233
Net assets:		
Invested in capital assets, net of related debt	197,434	175,683
Unrestricted	72,150	51,571
Total net assets	$ 269,584	$ 227,254

Changes in Net Assets (in thousands)

	Year Ended June 30, 2001	2000
Revenues:		
Program revenues:		
Charges for services	$ 3,493	$ 3,351
Rents and other operating revenues	46,852	42,678
Operating grants and contributions	5	485
Capital grants and contributions	10,978	5,481
General revenues	4,108	4,873
Total revenues	65,436	56,868
Total expenses	48,806	39,860
Increase in net assets before Special item	16,630	17,008
Special item – lump-sum payment for property rights	25,700	
Increase in net assets	42,330	17,008
Net assets, beginning of the year	227,254	210,246
Net assets, end of the year	$ 269,584	$ 227,254

Financial Analysis (in thousands)

As noted earlier, net assets serve over time as useful indicator of an entity's financial position. The Port's financial position is strong and net assets continue to increase. Assets exceeded liabilities by $269,584 at the close of the most recent fiscal year. The increase in net assets of $42,330 at June 30, 2001 was much higher than the increase in net assets of $17,008 at June 30, 2000. This higher increase is largely due to the $25,700 recognized in 2001 of a payment from the San Francisco Municipal Transportation Agency (MUNI) for the permanent right to use an approximate 17 acre site of the Western Pacific Railroad Yard for its Metro East Maintenance and Operations Facility.

The largest portion of the Port's net assets (73 percent at June 30, 2001) reflects its investment in capital assets (e.g. land, buildings and equipment). The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. As disclosed in Note 1 to the financial statements, land transferred from the State of California to the City is reported at an amount which includes an increase over historical cost of $56,063. This amount was recorded by the State to reflect appraised values in 1929 . The total amount of net assets tied to capital assets ($197,434 at June 30, 2001) represents assets that are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources (i.e. other Port assets or operating revenues), since the capital assets themselves cannot be used to liquidate those liabilities. The remaining balance of net assets ($72,150 at June 30, 2001) is unrestricted and may be used to meet the Port's ongoing obligations and future capital investments.

Total revenues for the year ended June 30, 2001 were $8,568 higher than the previous year and total expenses increased $8,946. This resulted in a slightly lower increase in net assets in 2001 than in 2000 before consideration of the MUNI payment for property rights.

Operating revenues increased 9.4% or $4,316. The Statement of Revenues, Expenses and Changes in Net Assets on page 9 presents the Port's operating revenues in more detail by industry revenue types. Commercial and industrial rent revenues increased $1,703. This increase reflects a combination of new and renegotiated leases, scheduled rent increases and higher percentage rents from restaurant and retail sales. A net increase was attained even after $1,900 in lost rents from terminated leases at the Ferry Building (due to a historic restoration and development project). Parking rents increased $1,600, principally due to the full year operation of the parking lot at China Basin including its expanded use for commuter parking. Maritime operations including cargo services and cargo facility rents had increased revenues of $500. Additional permit fees of $500 were realized from major development projects on Port property.

Capital grants and contributions consist principally of funds received or receivable from federal and state grant agencies which provide funding for many of the Port's capital projects. Approximately $9,000 of grant funds were expended during the fiscal year ended June 30, 2001 on the Downtown Ferry Terminal Project. Final proceeds of federal and state financial assistance for earthquake and related repairs were received in fiscal 2000. The Port receives other grants used for operating purposes, usually for special studies.

All revenues not reported as Program Revenues, as defined in GASB 34, are presented as General Revenues. General Revenues at June 30, 2001 and 2000 includes interest and investment income of $4,108 and $3,098, respectively. The increase in 2001 is principally attributable to valuation adjustments recorded at June 30 each year when the City's investments are marked to market value for financial reporting purposes. The Port's share of unrealized investment gains at June 30, 2001 was $585 and of unrealized losses at June 30, 2000 was $296. These valuation adjustments had a combined effect of $881 on 2001 revenues. For the fiscal year ended June 30, 2000, the Port recorded additional fire insurance settlement proceeds of $1,759 for construction repairs in progress at Pier 48 and Pier 43. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled.

The $8,946 increase in total expenses for the year ended June 30, 2001 included the following elements: higher personnel costs resulting from the filling of vacant positions, promotions and position reclassifications, scheduled salary and wage increases and related fringe benefit costs ($2,000); office rent expense of Port as subtenant to the master developer at Pier 1 ($1,000); increased utility costs due to the increase in gas and electrical rates ($600); increased payment to the City for services provided by other departments ($1,100); additional maintenance dredging ($1,100); increase in depreciation and amortization of new fixed assets placed in service ($400); unamortized cost of improvements and other fixed assets abandoned by the Port at the Ferry Building ($1,200); and the current year effect of the one-time recovery of indirect costs as part of the final settlement with FEMA/OES in 2000 of Loma Prieta earthquake repair costs, which abated previous year expenses ($900).

Capital Asset and Debt Administration

Capital assets. The Port's investment in capital assets as of June 30, 2001 amounts to $238.9 million, net of accumulated depreciation. This investment in capital assets includes land, certain street and road improvements, pier promenades, pier substructure, buildings and related improvements, vehicles, equipment and furniture. The total increase in the Port's investment in capital assets for the year ended June 30, 2001 was 9 percent. More information on the Port's capital assets can be found in Note 4 on page 18 of this report.

Major capital asset events during the current fiscal year included the following:

- Hyde Street Harbor commenced operations in June 2001 upon substantial completion of waterside improvements, including sixty-two new fishing boat berths. Landside improvements include new parking areas and a bathroom/shower facility for the fishermen. The $6.0 million project was financed by a California Department of Boating and Waterways loan for $3.5 million, a grant and Port capital funds.

- Substantial construction work was completed on the Downtown Ferry Terminal Project during the fiscal year ended June 30, 2001. The $19 million project is being funded by $15.7 million in grants and the balance by Port capital funds. Project work includes new ferry landing areas to the north (Gate B) and south (Gate E) of the Ferry Building and a new breakwater south for the southern terminal. Gate E opened for operations in early October 2001 and Gate B is expected to open in December 2001.

- Port administrative offices were relocated to Pier 1 and $3.4 million has been expended for tenant improvements, office furniture systems and equipment.

- Insurance funded repairs to fire-damaged facilities at Pier 48 are in progress. Approximately $3.5 million was previously expended for Phase 1 exterior repairs and $2.0 million of Phase 2 shed interior work was being completed in fiscal 2001.

The Port has entered into a number of public/private partnerships with developers for the historical preservation and renovation of Port properties. During fiscal 2001, the preservation and rehabilitation of Pier 1 into Class A offices was completed. The Port's administrative offices are in the new Pier 1 facility. Construction began in 2001 for restoration of the landmark Ferry Building. The renovated Ferry Building will include ground floor retail, transportation and public uses and upper floor offices and other commercial uses. More information concerning the Port's major development projects can be found at the Port's website: www.sfport.com.

Long-term obligations. Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 20 - 25 of this report. As of June 30, 2001, the Port had total long-term obligations of $50,949 including $5,674 that will mature during the next fiscal year. The total includes $3,200 in general obligation bonds which are backed by the full faith and credit of the City, $36,416 in revenue bonds and $11,186 in loans that are secured by specified revenue sources, and $147 in a capital lease obligation which is secured by certain equipment. The Port paid off the entire $8,700 balance outstanding of a commercial loan from a bank at June 30, 2001 on July 2, 2001. No new debt was issued during 2001. However, an additional $1,992 was drawn from the State loan to fund Hyde Street Harbor improvement expenditures.

Economic and Other Factors

Economy. A general national and local economic downturn was exacerbated by the terrorist acts of September 11, 2001. Tourist venues in the City and Port have experienced initial sharp declines in attendance or patronage. It is uncertain how long before tourist travel and tourist dependent sales will return to normal. The Port expects at least a short-term decline in revenues from restaurant and retail tenants that pay rents based on a percentage of gross sales. As is standard with retail leases, a minimum fixed rent is paid to the Port at the beginning of every month. Revenue loss is limited to some decline in overage rents (percentage rents above the minimum) and increased delinquencies. General economic conditions were taken into consideration in preparing the 2002 budget. Because conditions have worsened after September 11, the City and Port managers will take prudent steps to closely monitor revenue streams and control expenditures through the year.

BCDC Agreement. In July 2000, the Port agreed to amend its Waterfront Land Use Plan and the San Francisco Bay Conservation and Development Commission (BCDC) its San Francisco Bay Plan to create consistent plans for the waterfront area between the Hyde Street Pier and China Basin (Special Area Plan). Among other things, the Special Area Plan commits the Port to expend up to $30 million over a 20-year period for the removal of certain piers and the construction of major public plazas and other public access improvements.

Assembly Bill No. 1389, signed by the Governor of California in October 2001 to authorize approval of the development plans for a cruise ship terminal at Pier 30 and Pier 32, also ratifies the Special Area Plan adopted by the Port and BCDC. Among other things, the legislation accelerated a requirement for the construction of the public plaza area referred to as the Brannan Street Wharf. The estimated $15 million project is to be fully completed within five years of commencement of construction for the new cruise terminal (estimated to be 2008). The Port is aggressively seeking other funding sources (i.e. grants and contributions) to finance the required pier removals and public access improvements. Until sufficient funding from other sources is secured, the Port must commit significant capital funds for the Special Area Plan projects.

Requests for Information

This report is designed to provide a general overview of the Port of San Francisco's finances. The financial statements and related informative disclosures in the notes to the financial statements and required supplementary information is presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles." Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Information Officer or the Fiscal Officer at Pier 1, San Francisco, California, 94111.

Questions concerning the City and County of San Francisco or requests for a copy of the City's Comprehensive Annual Report should be addressed to:

OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO
City Hall, Room 316
#1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Port Commission
City and County of San Francisco
Port of San Francisco

Balance Sheet (In Thousands)

June 30,	2001	2000
Assets		
Current Assets:		
Cash and investments, held in City Treasury - Port operating fund	$ 70,706	$ 43,233
Cash outside City Treasury	5	5
Receivables - net	7,494	12,103
Materials and supplies	1,151	1,149
Prepaid insurance and other assets	553	291
Total current assets	79,909	56,781
Restricted Assets:		
Cash held in City Treasury:		
Lessee deposits	3,283	2,774
Capital outlay	1,766	2,453
Cash and investments, held by Trustee - Bond interest and redemption	9,716	9,643
Other - Lessee deposits	1,047	1,095
Total restricted assets	15,812	15,965
Capital Assets - net	238,936	220,176
Other Assets	10,227	8,565
Total assets	$ 344,884	$ 301,487
Liabilities		
Current Liabilities Payable from Current Assets:		
Accounts payable and accrued liabilities	$ 12,737	$ 8,548
Current maturities of long-term obligations	2,439	2,437
Accrued interest payable	213	213
Total current liabilities	15,389	11,198
Current Liabilities Payable from Restricted Assets:		
Current maturities of revenue bonds	3,235	3,085
Accrued bond interest payable	1,120	1,197
Lessee deposits	4,330	3,869
Deferred grants	12	12
Total payable from restricted assets	8,697	8,163
Noncurrent Liabilities	1,946	1,788
Deferred Revenue - Net of current portion	3,993	4,243
Long-term Obligations - Net of current maturities	45,275	48,841
Total liabilities	75,300	74,233
Net Assets:		
Invested in capital assets, net of related debt	197,434	175,683
Unrestricted	72,150	51,571
Total net assets	269,584	227,254
Total liabilities and net assets	$ 344,884	$ 301,487

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)

Years Ended June 30,	2001	2000
Operating Revenues:		
Commercial and industrial	$ 31,990	$ 30,287
Parking	8,189	6,548
Cargo	3,035	2,462
Fishing	1,350	1,329
Ship repair	960	1,000
Harbor services	848	817
Cruise	600	689
Other maritime	1,469	1,562
Other	1,904	1,335
Total operating revenues	50,345	46,029
Operating Expenses:		
Operations and maintenance	37,129	29,052
Depreciation and amortization	7,156	6,728
Total operating expenses	44,285	35,780
Operating income	6,060	10,249
Other Income (Expense):		
Interest and investment income	4,108	3,098
Interest expense	(3,302)	(3,595)
Gain from fire insurance settlement		1,759
Gain (loss) on disposition of assets	(1,214)	16
Other non-operating income	5	485
Other non-operating expense	(5)	(485)
Total nonoperating revenues and expenses	(408)	1,278
Capital Contributions - Capital grants and other contributions	10,978	5,481
Special Item - Payment for property rights in perpetuity	25,700	
Change in Net Assets	42,330	17,008
Net Assets - beginning of the year	227,254	210,246
Net Assets - end of the year	$ 269,584	$ 227,254

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands)

Years Ended June 30,	2001	2000
Cash Flows from Operating Activities:		
Cash received from tenants for rent	$ 41,844	$ 39,508
Cash received from customers	5,422	5,631
Deposits received from tenants and customers	950	593
Cash paid to employees for services	(18,392)	(16,297)
Cash paid to suppliers for goods and services	(9,013)	(3,837)
Cash paid for quasi-external transactions	(7,350)	(7,251)
Customer deposits returned	(441)	(303)
Net cash provided by operating activities	13,020	18,044
Cash Flows from Noncapital Financing Activities:		
Proceeds from operating grant	5	50
Operating grant expended	(5)	(26)
Proceeds from disaster assistance	2,748	1,329
Earthquake and storm damage repair expenses		(1,936)
Net cash provided (used) by noncapital financing activities	2,748	(583)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of property, plant and equipment	(26,666)	(11,992)
Dredging costs incurred	(3,073)	(3,536)
Additions to Waterfront land use plan	(74)	(221)
Payment fom City for real property rights	29,700	1,735
Capital grants received	13,042	
Proceeds from loan	1,992	
Contributed capital other than from grants	256	413
Net insurance proceeds from fire casualties	980	
Principal payments on long-term debt	(5,521)	(5,347)
Interest payments on long-term debt	(3,174)	(3,477)
Interest expense capitalized	(58)	(8)
Proceeds from sale of materials	67	16
Net cash provided (used) by capital and related financing activities	7,471	(22,417)
Cash Flows from Investing Activities:		
Interest income received	3,248	3,450
Investments (purchased) sold by Trustee	(5,359)	5,361
Net cash (used) provided by investing activities	(2,111)	8,811
Net Increase in Cash and Cash Equivalents	21,128	3,855
Cash and Cash Equivalents - Beginning of year	58,404	54,549
Cash and Cash Equivalents - End of year	$ 79,532	$ 58,404

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands)
(Continued)

Years Ended June 30,	2001	2000
Noncash Noncapital Financing Activities:		
Earthquake damages and expenses included in accounts payable and accrued liabilities		$ 203
Noncash Capital and Related Financing Activities:		
Building (tenant) improvements financed by rent credits	$ 494	446
Acquisition and construction of property, plant and equipment included in accounts payable and accrued liabilities	2,869	2,890
Loss on abandonment of property and equipment	1,281	
Acquisition of equipment under capital lease		200
Noncash Investing Activities:		
Change in fair value of cash and investments held in City Treasury	$ 585	$ (296)
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Operating income	$ 6,060	$ 10,249
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,156	6,728
Change in allowance for doubtful accounts	39	(52)
Net change in deferred revenue	(924)	(532)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(1,499)	(305)
Materials and supplies	(2)	77
Prepaid insurance and other assets	1,133	699
Increase in:		
Accounts payable and accrued liabilities	548	890
Lessee deposits	509	290
Net cash provided by operating activities	$ 13,020	$ 18,044
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:		
Cash and investments held in City Treasury - Port operating fund	$ 70,706	$ 43,233
Cash outside City Treasury	5	5
Cash held in City Treasury:		
Lessee deposits	3,283	2,774
Capital outlay	1,766	2,453
Cash held by Trustee - Bond interest and redemption (see Note 2)	4,357	9,643
	80,117	58,108
Add - Change in fair value of cash and investments held in City Treasury	(585)	296
Cash and Cash Equivalents	$ 79,532	$ 58,404

The accompanying notes are an integral part of this statement.

Note 1 - Significant Accounting Policies:

a. Basis of Presentation:

The Port of San Francisco (Port) is an enterprise fund of the City and County of San Francisco (City). Only the accounts of the Port are included in these financial statements. There are no component units that should be considered for inclusion in the Port's financial reporting entity.

A five-member Port Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included as a component of the City's Comprehensive Annual Financial Report.

Prior to February 1969, the Port was owned by the State of California ("State") and administered by the San Francisco Port Authority, a State agency. In February 1969, the Port was transferred in trust to the City under the terms and conditions specified in the State statutes of 1968, Chapter 1333 ("Burton Act"), as amended, and ratified by the City's voters in November 1968.

Under the terms of the Burton Act, the State Legislature reserved the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust, provided that the State would then assume all lawful obligations related to such lands.

The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Substantially all of the Port's property rental customers are located within the boundaries of the City.

The Port's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Port applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City elected to adopt early, the provisions of GASB Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The Port's balance sheet has a new format for the presentation of the difference between assets and liabilities as net assets. All Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net assets. Prior year's balances have been reclassified to conform with the current year presentation. These reclassifications have no effect on the Port's financial position in total; however under the all inclusive approach to presenting the changes in net assets, the activities previously reported separately in the Statement of Income and the Statement of Equity have been combined. Under GASB 34, net assets are reported in three broad components, as applicable – invested in capital assets, net of related debt; restricted; and unrestricted.

b. Cash and Investments:

The Port reports its investments at fair value based upon quoted market price. Fair value is defined as the amount that the Port could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short term investments are reported at cost (or amortized cost), which approximates fair value. For purposes of the statement of cash flows, all unrestricted and restricted cash and highly liquid investments with maturities of three months or less, when purchased, are considered to be cash equivalents. In addition, the Port considers its deposits with the City Treasurer (see Note 2) to be demand deposits and therefore cash for the purposes of the statement of cash flows.

c. Materials and Supplies

Materials and supplies are used for construction and maintenance of Port facilities and are stated at cost, on a first-in, first-out basis.

d. Restricted Assets

Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. The funds are held by the bond trustee.

Capital outlay funds are restricted for use in construction, acquisition of equipment, and earthquake repairs, due to restrictions from federal and state grant agreements and bond resolutions.

e. Capital Assets

Land transferred to the City in February 1969 is stated at an amount which includes an increase over historical cost of $56,063,000. This amount was recorded by the State in prior years to reflect appraised values in 1929.

Other property, plant and equipment is carried at cost or at fair market value at the date received in the case of property received by donation or by termination of a lease. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. Land improvements (principally pavement and pier promenades) with a cost of approximately $18 million are not depreciated because, in the opinion of management, the assets will be maintained to provide indefinite useful lives. Building (tenant) improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the related lease. Maintenance and repairs are expensed as incurred.

Interest paid on bond funds used for construction purposes, less interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, if applicable, is capitalized from the date of borrowing through the construction period.

f. Other Assets

Bond issue costs are amortized using the straight-line method over the life of the bond. Original bond issue premiums are offset against the related debt and amortized using the straight-line method over the life of the bonds.

Loan issue costs are amortized using the straight-line method over the outstanding term of the loan.

Dredging costs are amortized using the straight-line method over the estimated useful period ranging from one to seven years.

Waterfront Land Use Plan (Plan) costs are amortized using the straight-line method over an estimated life of 20 years. The Plan was approved by the City Board of Supervisors in September 1997.

g. Deferred Revenue

Deferred revenue consists primarily of rent credits issued to customers. Deferred revenue is recognized in accordance with the lease agreements.

h. Refunding Debt:

The Port's revenue bonds were refunded in 1994 (see Note 8). The difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a reduction of the bonds payable. The amount is being amortized on a straight-line basis over 15 years.

The Port, at various times, receives federal and state grants and funds from other external sources for construction of waterfront facilities. The funds are reported as capital contributions on the Statement of Revenues, Expenses and Changes in Net Assets.

i. Environmental Expenses:

The Port incurs costs associated with environmental clean-up which arise during the normal course of business. These costs are recorded as a liability when the Port is required to perform the cleanup and the costs can be reasonably estimated.

j. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments:

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments as part of the City's pool of cash and investments. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of risk associated with the City's pooled cash and investments.

Cash and investments, reported at fair value, at June 30, 2001 and 2000 are as follows (in thousands):

	2001	2000
Cash and investments with City treasury	$ 70,706	$ 43,233
Cash outside City treasury	5	5
Restricted assets:		
Cash and investments with City treasury	5,049	5,227
Deposits and investments outside City treasury:		
Lessee deposits	1,047	979
Cash and investments held by bond trustee	9,716	9,643
	$ 86,523	$ 59,087

Cash deposits consist of the following (in thousands):

	June 30, 2001		June 30, 2000	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Federally insured deposits	$ 986	$ 985	$ 918	$ 917
Uninsured and uncollateralized deposits	66	66	66	66
	$ 1,052	$ 1,051	$ 984	$ 983

Lessee security deposits are held on behalf of the Port by third party trustees and invested in renewable certificates of deposit. One security deposit for $166,000 exceeds the federal insurance limit.

At June 30, 2001 and 2000, cash and investments held in reserve and for debt service payments by trustee consist of:

	2001	2000
	(in thousands)	
Reserve Fund:		
U.S. Treasury Obligation Fund	$ 2	$ 5,361
U.S. Treasury Note	5,211	
Accrued Interest	148	
Debt Service Funds:		
U.S. Treasury Obligation Fund	4,355	4,282
	$ 9,716	$ 9,643

Investments, other than the U.S. Treasury Note held at June 30, 2001, may be withdrawn on demand and meet the criteria of cash or cash equivalent for cash flow statement purposes. At June 30, 2000, all investments held by the bond trustee were in a money market mutual fund.

Note 3 - Receivables:

At June 30, 2001 and 2000, receivables consisted of:

	2001	2000
	(in thousands)	
Trade accounts receivable	$ 3,456	$ 3,077
Less allowance for doubtful accounts	(267)	(228)
	3,189	2,849
Accrued income and other amounts due from tenants	1,799	527
Grants receivable	1,765	4,085
Federal and state disaster assistance receivable	12	2,760
Insurance proceeds receivable		980
Accrued interest receivable	580	601
Other receivables	149	301
	$ 7,494	$ 12,103

As discussed in Note 15, the federal and state disaster assistance receivable as of June 30, 2000 represents the excess of approved federal and state assistance relating to the Loma Prieta earthquake over assistance and insurance amounts received.

Note 4 - Capital Assets:

At June 30, 2001 and 2000, capital assets consisted of:

	2001	2000	Estimated Useful Life (Years)
	(in thousands)		
Land and land improvements	$ 118,809	$ 116,866	
Buildings, structures and related improvements	216,149	210,412	5 - 59
Furniture, machinery and equipment	9,965	9,088	2 - 20
Total	344,923	336,366	
Less accumulated depreciation	(148,951)	(143,975)	
	195,972	192,391	
Construction work in progress	42,964	27,785	
Total	$ 238,936	$ 220,176	

Total interest cost was $3,196,000 and $3,393,000 for fiscal years 2001 and 2000, of which $58,000 and $8,000 was capitalized, respectively. Total interest earned was $3,226,000 and $3,394,000 for fiscal years 2001 and 2000, of which $0 was capitalized in 2001 and 2000.

The cost of fully depreciated assets still in use was approximately $76,633,000 and $76,579,000 at June 30, 2001 and 2000, respectively. Buildings, structures and improvements include pier substructures, which have an estimated useful life greater than 50 years. Such long-lived assets total $20,226,000 as of June 30, 2001 and 2000.

Note 5 - Other Assets:

At June 30, 2001 and 2000, other assets consisted of:

	2001	2000
	(in thousands)	
Deferred debt and loan issue costs - net	$ 675	$ 765
Dredging costs	6,692	4,861
Waterfront land use plan	2,689	2,760
Other deferred costs	171	179
	$ 10,227	$ 8,565

Note 6 - Accounts Payable and Accrued Liabilities:

At June 30, 2001 and 2000, accounts payable and accrued liabilities consisted of:

	2001	2000
	(in thousands)	
Accounts payable	$ 3,916	$ 4,036
Current portion of deferred revenue	4,659	839
Accrued liabilities	2,013	1,751
Accrued payroll, compensated absences and related costs	2,149	1,922
	$ 12,737	$ 8,548

Note 7 - Noncurrent Liabilities:

At June 30, 2001 and 2000, noncurrent liabilities consisted of:

	2001	2000
	(in thousands)	
Compensated absences and related costs	$ 819	$ 771
Workers' compensation	849	802
Other	278	215
	$ 1,946	$ 1,788

Note 8 - Long-term Obligations:

Long-term obligations at June 30, 2001 and 2000 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2001	Balance 2000
			(in thousands)	
Revenue bonds	5.00 - 9.00	2010	$ 36,416	$ 39,386
General obligation bonds	4.50 - 6.30	2003 - 2005	3,200	4,400
Loans payable	Variable	2008 - 2028	11,186	10,394
Capital lease	6.31	2005	147	183
Total long-term obligations			50,949	54,363
Less current maturities			(5,674)	(5,522)
Net long-term obligations			$ 45,275	$ 48,841

The following is a summary of changes in long-term obligations for the years ended June 30, 2001 and 2000 (in thousands):

	General Revenue Bonds	Obligation Bonds	Loans	Capital Lease	Total
Balances as of July 1, 1999	$ 42,202	$ 5,600	$ 11,181		$ 58,983
Additional obligations			413	$ 200	613
Current maturities, retirements and other decreases	(2,816)	(1,200)	(1,200)	(17)	(5,233)
Balances as of June 30, 2000	39,386	4,400	10,394	183	54,363
Additional obligations			1,992		1,992
Current maturities, retirements and other decreases	(2,970)	(1,200)	(1,200)	(36)	(5,406)
Balances as of June 30, 2001	$ 36,416	$ 3,200	$ 11,186	$ 147	$ 50,949

The annual requirements to amortize all outstanding long-term obligations are as follows (in thousands):

	Bonds	Loans	Capital Lease	Total
Year Ending June 30:				
2002	$ 6,764	$ 1,886	$ 47	$ 8,697
2003	6,693	1,925	47	8,665
2004	5,764	1,835	47	7,646
2005	5,794	1,744	25	7,563
2006	5,361	1,654		7,015
2007 – 2011	21,354	3,944		25,298
2012 – 2016		887		887
2017 – 2021		753		753
2022 – 2027		32		32
Total debt service	51,730	14,660	166	66,556
Less - interest	(12,114)	(3,474)	(19)	(15,607)
Total liability - June 30, 2001	$ 39,616	$ 11,186	$ 147	$ 50,949

Bonds

Bond obligations at June 30, 2001 and 2000 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2001	Balance 2000
			(in thousands)	
General Obligation Bonds:				
City and County of San Francisco - Harbor Improvement 1971:				
Series A	4.50	2003	$ 1,600	$ 2,400
Series B	6.30	2005	1,600	2,000
Total General Obligation Bonds			3,200	4,400
Revenue Bonds:				
Series 1994	5.00 - 9.00	2010	37,330	40,415
Total Revenue Bonds			37,330	40,415
Total Bond Obligations			40,530	44,815
Less:				
Current maturities			(4,435)	(4,285)
Unamortized Revenue Bond Series 1994 bond premium			347	389
Deferred amount on refunding			(1,261)	(1,418)
Net Bond Obligations			$ 35,181	$ 39,501

In 1994, the Port issued $53,610,000 in Revenue Refunding Bonds, Series 1994 with an average interest rate of 5.8 percent to refund $49,975,000 of outstanding 1984 Revenue Bonds, Series A, B and C with an average interest rate of 8.4 percent.

The refunding resulted in a difference between the reacquisition price (principal of the old debt plus call premium) and the net carrying amount of the old debt of $2.36 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2010 using the straight line method.

Under the terms of the Revenue Refunding Bonds, Series 1994 Indenture, the Port is required to deposit with a trustee in a reserve fund, an amount equal to the lesser of (a) maximum debt service accruing in any year during the life of such bonds, (b) ten percent (10%) of the proceeds derived from the sale of Series 1994 Bonds, or (c) 1.25 times the average annual debt service due with respect to Series 1994 Bonds. At June 30, 2001, the Port was in compliance with this bond indenture requirement.

While Series 1994 Bonds are outstanding, the Port may not create liens on its property essential to operations, dispose of any property essential to maintaining revenues or operating the Port, and must maintain specified insurance. The Port may issue additional bonds under the 1994 Indenture provided the Port complies with the Additional Bonds Test, as defined in the indenture.

Covenants of the 1994 Indenture include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees, and charges for the use of Port property and for services rendered by the Port so that the Net Revenue, as defined in the bond indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2001, the Port was in compliance with such bond covenants.

The revenue bonds are secured by a pledge of Net Revenues of the Port, as defined by the bond indenture. Certain general obligation bonds issued by the City are subordinated to the revenue bonds and any future senior lien revenue bonds.

The Series 1994 Revenue Bonds are subject to an arbitrage rebate requirement. The requirements stipulate, in general, that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. Estimated arbitrage liability was $46,000 and $6,000 as of June 30, 2001 and 2000, respectively.

Loans

The Port has entered into a commercial loan agreement for $12 million to finance certain capital projects. The loan is subordinate to all bonds payable by the Port. The loan interest rate (5.68% at June 30, 2001 and 7.09% at June 30, 2000) adjusts with the LIBOR rate. The Port purchased an interest rate cap, which mitigates the interest rate risk associated with a variable rate loan. The maximum rate the Port will pay is 8.5%. The loan is secured by a lien on and security interest in Net Revenue as defined in the loan agreement. Covenants of the loan agreement include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port so that Net Revenue, as defined in the loan agreement, less the annual debt service on the Revenue and City Bonds in each fiscal year will be at least equal to 115% of aggregate annual debt service for such fiscal year. At June 30, 2001, the Port was in compliance with such loan covenants.

The entire balance outstanding of $8,700,000 at June 30, 2001 was paid off on July 2, 2001.

The Port has also entered into a loan agreement with a State Agency to borrow up to $3.5 million to finance a certain capital project. The loan is subordinate to all bonds payable by the Port. Interest will accrue at a rate of 4.5% per annum on the unpaid balance commencing with the first draw on the loan. The term is 30 years from the date of the first draw, which occurred in April 1998. The loan is secured by Gross Revenues as defined in the loan agreement. If the project is not completed by August 2002, all loan moneys expended prior to such date will become a current obligation of the Port and payable to the lender. Other operating conditions apply once the project has been completed.

Loans at June 30, 2001 and 2000, consisted of:

	2001	2000
	(in thousands)	
Commercial loan payable to a bank, quarterly installments of $300,000 plus interest through July 2008	$ 8,700	$ 9,900
Loan payable to State Agency, payments commencing August 1, 2002	2,486	494
Total loans payable	11,186	10,394
Less current portion	(1,200)	(1,200)
Net loans payable	$ 9,986	$ 9,194

As noted above, the commercial loan was extinguished in July 2001.

Capital Lease

In 1999, the Port entered into a lease purchase agreement for certain equipment. This lease arrangement is accounted for as a capital lease. At June 30, 2001, equipment under this lease arrangement totaled approximately $200,000 and accumulated amortization on those assets at June 30, 2001 and 2000 totaled $39,000 and $9,000, respectively.

Note 9 - Operating Revenues - Property Rentals:

Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. Property rental revenues were comprised as follows:

	2001	2000
	(in thousands)	
Minimum rentals	$ 36,110	$ 32,306
Percentage rentals	8,542	7,749
	$ 44,652	$ 40,055

Minimum future rental income under noncancellable operating leases having terms in excess of one year are as follows:

Year Ending June 30	(in thousands)
2002	$ 27,894
2003	24,527
2004	22,816
2005	21,393
2006	19,009
Thereafter	437,392
Total	$ 553,031

The approximate cost of property subject to operating leases and property held for lease at June 30, 2001 consist of:

	(in thousands)
Land and land improvements	$ 52,552
Buildings, structures, and related improvements at cost, less accumulated depreciation of $133,938	56,382
Total	$ 108,934

Note 10 - Non-Operating Income (Expense):

Other non-operating income and expense consisted of:

	2001	2000
	(in thousands)	
Non-operating income:		
Federal and state earthquake assistance		$ 459
Local grant for signage	$ 5	26
	$ 5	$ 485
Non-operating expense:		
Earthquake damages and expenses		$ (459)
Ferry terminal signage	$ (5)	(26)
	$ (5)	$ (485)

Note 11 - Employee Benefit Plans:

a. Retirement Plans:

City and County of San Francisco

Plan Description - The City has a single-employer defined benefit retirement plan (Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The plan covers substantially all full-time employees of the Port along with other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102 or by calling (415) 487-7020.

Funding Policy - Contributions are made to the basic plan by both the Port and employees. Employee contributions are mandatory. Employee contribution rates for 2001 and 2000 were between 7% to 8% as a percentage of covered payroll. The Port is required to contribute at an actuarially determined rate. No Port contributions were required for the years ended 2001, 2000 and 1999 as the actuarially determined contribution rate as a percentage of covered payroll was 0%. The Port's contributions to the Retirement System on behalf of its employees amounted to $1,143,000, $1,021,000 and $930,000 for the years ended June 30, 2001, 2000 and 1999, respectively, which was equal to the required employee contributions for those years.

State of California:

Plan Description - The Port also contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. Certain employees who commenced their employment at the Port prior to February 1969 are eligible to participate in PERS. Benefit provisions and all other requirements are established by state and city ordinances. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy - Participating employees are required to contribute 7 percent of their salary to PERS. The Port is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by PERS actuaries and actuarial consultants and adopted by the Board of Administration.

There were no contributions required in 2001, 2000 and 1999. The City's Comprehensive Annual Financial Report contains disclosures for all covered City employees. Amounts for the Port are not separable from the City totals.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the deferred compensation plan assets pertaining to the Plan are no longer included in the City's financial statements. Previously, the assets of an eligible IRC 457 plan were considered the property of the City and the assets of the plan and related liability to plan participants were reported in an agency fund on the City's financial statements.

The amounts deferred by Port employees totaled $888,000, $763,000 and $625,000 for 2001, 2000 and 1999, respectively.

Health Care Benefits

Health care benefits of Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port's contribution, which amounted to approximately $554,000, $502,000 and $448,000 in fiscal years 2001, 2000 and 1999, respectively, is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The cost of providing benefits for the retirees is not separable from the cost of providing benefits for the active employees. The Port's liability for both current employee and post retirement health care benefits is limited to its annual contribution.

Note 12 - Related Party Transactions:

The Port receives services from, and provides services to, various City departments. The cost of services received, included as operating expenses in the financial statements, was approximately $7,350,000 in 2001 and $6,306,000 in 2000. Services provided, included in operating revenue, amounted to approximately $3,522,000 and $3,490,000 in 2001 and 2000, respectively. Receivables relating to such transactions are disclosed in Note 3.

In accordance with a guaranteed payment agreement for parking fine revenues collected from Port property, the Port received $1.2 million from the Department of Parking and Traffic in 2001 and 2000.

Note 13 - Fire Insurance Proceeds:

Insurance was in force to cover fire damage to the Port's property at Pier 48 and Pier 43. On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower.

Through June 30, 2001, the Port has received interim insurance payments of $6,230,000 for Pier 48 and $500,000 for Pier 43. As disclosed in Note 3, receivables at June 30, 2000 included $730,000 for approved construction repairs at Pier 48 and $250,000 at Pier 43. The gain recognized as other income in the Statement of Revenues, Expenses and Changes in Net Assets represents proceeds received or receivable for construction repair in excess of clean-up expenses incidental to the casualty. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled.

Note 14 - Commitments, Litigation and Contingencies:

a. Commitments

The Port is presently planning various development projects which involve a commitment to expend significant funds. The Port had firm purchase commitments at June 30, 2001 for approximately $8,048,000 for capital projects and $1,290,000 for general operations. Under an agreement with The San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements.

b. Litigation

The Port is a defendant in various lawsuits and claims; most deal with personal injury or property damage resulting from accident or fire and are covered by insurance. In the opinion of counsel the likelihood of an unfavorable outcome is probable in some of the suits and, accordingly, accrued liabilities include the aggregate amount of deductibles under applicable insurance policies. However, a number of the lawsuits are in the discovery stages and counsel to the Port cannot express an opinion as to the possible outcome of such litigation. Port's management believes that the ultimate resolution of such matters is not expected to have a material effect on the Port's financial position or results of operations.

c. Contingencies

Risk Management:

The Port is subject to various risks of loss including general liability, property and casualty, workers' compensation and employee health and accident. The Port carries commercial insurance for all risks of loss except workers' compensation and employee health and accident. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not recorded claims, is provided by the City. The workers' compensation liability as of June 30, 2001 and 2000 has been evaluated by an independent actuary.

Changes in the reported liability reserves for 2001 and 2000 resulted from the following activity:

	General Liability		Workers' Compensation	
	2001	2000	2001	2000
	(in thousands)			
Beginning of the year	$ 250	$ 200	$ 1,074	$ 790
Current year claims and changes in estimate	96	111	397	564
Claim payments	(35)	(61)	(326)	(280)
End of year	$ 311	$ 250	$ 1,145	$ 1,074

The general liability and workers' compensation liability are included in accrued liabilities in the financial statements.

Grants:

Certain grants and federal and state emergency assistance that the Port receives are subject to audit and final acceptance by the granting agency based upon their review of costs incurred. Port's management does not believe that such audits will have a material impact on the financial statements.

Environmental:

The Port has been ordered by the California Regional Water Quality Control Board to close certain landfills with a water unimpregnable surface. Under an agreement with BCDC, one of the pier sites has been developed as a park and wetland area. The Port estimates the cost to close the remaining specified landfills to be in the range of $3.5 to $4.5 million.

The Port has identified certain other environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination. The Port may be required to perform certain clean up work if it intends to develop or lease the property, or at such time as required by the city or state. The Port estimates such costs to be in the range of $1 to $2 million.

Note 15 - Earthquake Damages:

The Port suffered damage from the Loma Prieta earthquake which occurred October 17, 1989. All damaged property and infrastructure have been identified and over $26.5 million has been expended to complete earthquake-related repairs through June 30, 2000. These repair costs do not include seismic upgrades, retrofitting or other improvements.

The Port has received $27,750,000 in Federal and state emergency assistance. At June 30, 2000, the Port recorded a receivable in the amount of $2,748,000, which represented the final remaining balance of Federal and state assistance due to Port for repair costs and related expenses. The final payments were received in July 2000.

During 1999 representatives from the Federal Emergency Management Agency (FEMA) completed a close-out review for funding of the Port's earthquake related projects. Following the completion of all the projects in 2000, the Governor's Office of Emergency Services conducted its final inspection. The close-out review and final inspection resulted in the reimbursement of additional costs claimed by the Port and in a reduction of operating costs which were previously incurred. Expense abatements of $884,000 were recorded in 2000.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2002 AND 2001

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CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co., LLP
Certified Public Accountants

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

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City and County of San Francisco
Port of San Francisco

Financial Statements and
Independent Auditors' Report

Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 8
Financial Statements:	
Balance Sheet	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11 - 12
Notes to Financial Statements	13 - 33

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co., LLP
Certified Public Accountants

Independent Auditors' Report

THE HONORABLE EDWARD HARRINGTON
CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

We have audited the accompanying balance sheet of the **PORT COMMISSION, CITY AND COUNTY OF SAN FRANCISCO, PORT OF SAN FRANCISCO (the Port)** as of June 30, 2002 and 2001, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hood & Strong LLP Rodriguez, Perez, Delgado & Co., LLP

October 7, 2002, except for Note 13,
as to which the date is November 11, 2002

Management's Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis is a narrative overview and analysis of the financial activities of the Port of San Francisco (Port). It serves as an introduction to the audited financial statements, which can be found on pages 9 - 33 of this report. This overview should be read in conjunction with the more detailed information contained within the accompanying financial statements.

The Port is a self-supporting enterprise department of the City and County of San Francisco (City) and its financial operations are included as a component of the City's Comprehensive Annual Financial Report. Only the accounts of the Port are included in the financial statements that follow. The Port Commission is responsible for seven and one-half miles of waterfront property, which was transferred in trust from the State of California to the City in 1969. The Port's revenue is derived primarily from property rental to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Additional information concerning the Port's organization and the basis of presentation for this financial report is contained in Note 1 to the financial statements (page 13).

The Balance Sheet presents information on all of the Port's assets and liabilities, with the difference between the two reported as "net assets." Increases and decreases in net assets serve as a useful indicator of the financial position of business enterprise entities like the Port. Comparative information of the Port's financial position is presented as of June 30, 2002 and 2001.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's net assets changed during the most recent two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected rents from tenants and earned, but unused vacation leave).

The Statement of Cash Flows presents information about the cash receipts and cash payments of the Port during the most recent two fiscal years. This statement shows the effects on financial position of cash and non-cash operating, investing, capital, and financing transactions. When used with related disclosures and information in the other financial statements, the information in the Statement of Cash Flows helps readers assess the Port's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 13 - 33 of this report.

Following is a presentation of certain condensed financial information derived from the basic financial statements.

Condensed Financial Information – Port of San Francisco

Comparative Net Assets (in thousands)

	June 30, 2002	June 30, 2001	Change	% Change
Current and other assets	$ 96,373	$ 105,948	$ (9,575)	(9.0)
Capital assets	243,632	238,936	4,696	2.0
Total assets	340,005	344,884	(4,879)	(1.4)
Long-term debt obligations	38,987	50,949	(11,962)	(23.5)
Other liabilities	26,526	24,351	2,175	8.9
Total liabilities	65,513	75,300	(9,787)	(13.0)
Net assets:				
Invested in capital assets, net of related debt	213,399	197,434	15,965	8.1
Restricted	6,201		6,201	
Unrestricted	54,892	72,150	(17,258)	(23.9)
Total net assets	$ 274,492	$ 269,584	$ 4,908	1.8

Changes in Net Assets (in thousands)

	Year Ended June 30, 2002	Year Ended June 30, 2001	Change	% Change
Revenues:				
Program revenues:				
Rents and other operating revenues	50,494	50,345	$ 149	0.3
Operating grants and contributions		5	(5)	(100.0)
Capital grants and other contributions	2,747	10,978	(8,231)	(75.0)
General revenues	12,020	4,108	7,912	192.6
Total revenues	65,261	65,436	(175)	(0.3)
Total expenses	60,353	48,806	11,547	23.7
Increase in net assets before Special item	4,908	16,630	(11,722)	(70.5)
Special item – Lump-sum payment for property rights		25,700	(25,700)	(100.0)
Increase in net assets	4,908	42,330	(37,422)	(88.4)
Net assets, beginning of the year	269,584	227,254	42,330	18.6
Net assets, end of the year	$ 274,492	$ 269,584	$ 4,908	1.8

Financial Analysis (in thousands)

Assets exceeded liabilities by $274,492 at the close of the most recent fiscal year. The increase in net assets of $4,908 at June 30, 2002 was less than the increase in net assets of $42,330 at June 30, 2001. The higher increase in 2001 was largely due to the recognition of a $25,700 payment from the San Francisco Municipal Transportation Agency (MUNI) for the permanent right to use an approximate 17 acre site of the Western Pacific Railroad Yard site for its Metro East Maintenance and Operations Facility.

The largest portion of the Port's net assets, 78 percent at June 30, 2002 and 73 percent at June 30, 2001, reflects its investment in capital assets (e.g. land, buildings and equipment), net of related debt. The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. As disclosed in Note 1 to the financial statements, land transferred from the State of California to the City is reported at an amount which includes an increase over historical cost of $56,063. This amount was recorded by the State to reflect appraised values in 1929. The total amount of net assets tied to capital assets ($213,399 at June 30, 2002) represents assets that are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources (i.e. other Port assets or operating revenues). The capital assets themselves cannot be used to liquidate those liabilities. The $15,965 increase in Net Assets Invested in Capital Assets, Net of Related Debt includes in part the effect of the early pay-off of a commercial loan. An outstanding loan balance of $8,700 was paid off on July 2, 2001. The remaining portion of net assets at June 30, 2002 consists of $6,201 restricted by current agreements for specified capital expenditures and $54,892 that is unrestricted and available to meet the Port's ongoing obligations and future capital investments.

Operating and total revenues reported for the year ended June 30, 2002 were, in the aggregate, at about the same level as 2001 (before the special revenue item from MUNI). Total expenses in 2002 increased $11,547 over 2001, resulting in the more modest increase in net assets for 2002. The Statement of Revenues, Expenses and Changes in Net Assets on page 10 presents the Port's operating revenues in more detail by industry revenue types. Commercial and industrial rent revenues increased $492, reflecting a combination of new and renegotiated leases and scheduled rent increases. This increase is after the absorption of an over $2,000 decline in percentage (overage) rents from the Port's restaurant and retail tenants, who were deeply impacted by the general economic downturn which occurred in 2001-2. Parking revenues for 2002 were down $809, also reflecting the loss in business volume during the economic downturn. Maritime operations, including cargo vessel revenues and cargo facility rents, posted increased revenues of $762, which however have been more than offset by increased operating costs pursuant to an amended terminal operating agreement. Additional one-time permit fees of $500 were realized from major development projects on Port property in 2001.

Capital grants and contributions consist principally of funds received or receivable from federal and state grant agencies which provide funding for many of the Port's capital projects. Approximately $1,800 and $9,000 of grant funds were expended on the Downtown Ferry Terminal Project during the fiscal year ended June 30, 2002 and 2001, respectively.

All revenues not reported in the foregoing condensed summaries as Program Revenues, as defined in Government Accounting Standards Board Statement No. 34, are presented as General Revenues. General Revenues at June 30, 2002 consists of the gain from fire insurance proceeds received for the construction repairs at Pier 48 and Pier 43 ($8,774) and interest and investment income ($3,246). The 2001 amount ($4,108) was entirely for interest and investment income.

The $11,547 increase in total expenses for the year ended June 30, 2002 included normal or routine increases in operating expenses as well as a number of large expenditure charges which management does not expect to recur or to recur in a lesser magnitude. The more routine increases to operating expenses occurred in the following areas:

- higher personnel costs resulting from the filling of budgeted positions, promotions and position reclassifications, scheduled salary and wage increases and related fringe benefit costs ($1,525);
- full year effect of office rent expense of Port as subtenant to the master developer at Pier 1 – sublease commenced February 2001 ($1,550);
- increase in depreciation and amortization of new fixed assets placed in service ($963); and
- increase in insurance expense due to the higher insurance premiums after September 11, 2001 ($384).

Non-routine expenditure increases occurred in the following areas during the year ended June 30, 2002:

- Workers compensation losses ($1,568) – Several workers compensation claims developed into major losses, requiring reimbursement for major surgeries and greater indemnification for lost wages. Annual cost for workers compensation has typically run under $500 per year.
- Subsidy to terminal operator ($1,501) – An amendment to the management agreement between the Port and its terminal operator at Pier 80 changed the underlying revenue sharing arrangement to one of guaranteed compensation to the terminal operator effective September 2001. The gross amount due to the terminal operator under this amendment has been recorded as an operating expense. The reported increase in cargo revenue in 2002 over 2001 of $762 is largely due to the Port receiving directly the revenue share previously collected directly by the terminal operator. The five-year terminal operating agreement expires in December 2002.
- Capital project expenditures charged to expense ($1,400) – Two capital projects were charged out as an expense of 2002. In accordance with an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the demolition and removal of Pier 34 was completed during the year ($851). Ownership and maintenance responsibility for an expanded water main servicing Piers 48 and 50 was completed and transferred to the San Francisco Public Utilities Commission ($549). Both projects were financed by capital project funds and not by the Port's current operating budget.
- Claims and judgments ($1,294) – Increase reflects several matters which were settled in 2002 and the probable ultimate loss related to other claims and judgments pending final settlement.
- Remediation of contaminated soils ($800) – As discussed more fully in Note 13 (page 32), the Port has received a notice of violation from the California Department of Toxic Substances Control (DTSC) in connection with approximately 15,000 cubic yards of abandoned soil on Port property. The soil is contaminated with soluble lead in concentrations that classify it as hazardous waste in California. Management estimates that remediation costs are likely to be in the range of $800 to $1,200. The Port intends to fund the required remediation with project funds outside of the operating budget.
- Bad debt expense ($739) – The provision for bad debts in 2002 was increased because the general economic downturn and the post-September 11 decline affected the ability of some Port tenants to pay their rent obligations.

Capital Asset and Debt Administration

Capital assets. The Port's investment in capital assets as of June 30, 2002 amounts to $243.6 million, net of accumulated depreciation. This investment in capital assets includes land, certain street and road improvements, pier promenades, pier substructure, buildings and related improvements, vehicles, equipment and furniture. The total increase in the Port's investment in capital assets for the year ended June 30, 2002 was 2 percent. Additional information on the Port's capital assets can be found in Note 4 to the financial statements (page 19).

Major capital asset events of fiscal 2002 and 2001 included the following:

- The new Downtown Ferry Terminal was placed in service during fiscal 2002. The $19.8 million project was funded by $15.7 million in grants and the balance by Port capital funds. Project work includes new ferry landing areas to the north (Gate B) and south (Gate E) of the Ferry Building, and a new breakwater south of Gate E. Gate E opened for operations in October 2001 and Gate B in May 2002.
- Insurance-funded repairs to fire-damaged facilities at Pier 48 are in progress. Approximately $5.5 million was previously expended for building repairs to the sheds. Seismic retrofit of the pier was triggered by the insurance-funded repairs. In 2002, an $8.0 million settlement was reached with the insurers for completion of the required seismic repairs. This construction work was in progress at June 30, 2002 and is scheduled to be completed in fiscal 2003.
- Approximately $2.8 million was expended to repair the marginal wharf area adjacent to the seawall at the entrance to Pier 3. The completed work was required to preserve the main entrance and public access breezeway at the pier.
- Hyde Street Harbor commenced operations in June 2001 upon substantial completion of waterside improvements, including sixty-two new fishing boat berths. Landside improvements include new parking areas and a bathroom/shower facility for the fishermen. The $6.0 million project was financed by a California Department of Boating and Waterways loan for $3.5 million, a grant, and Port capital funds.
- Port administrative offices were relocated to Pier 1 in February 2001 and $3.4 million was expended for tenant improvements, office furniture systems and equipment in 2001.

The Port has entered into a number of public/private partnerships with developers for the historical preservation renovation, and redevelopment of Port properties. Construction is in progress for the restoration of the landmark Ferry Building. The renovated Ferry Building, which is expected to open in Spring 2003, will include ground floor retail, transportation and public uses, and upper floor offices and other commercial uses. During fiscal 2001, the preservation and rehabilitation of Pier 1 into Class A offices was completed. The Port's administrative offices are in the new Pier 1 facility. Other development projects are in various stages of review or negotiation. More information concerning the Port's major development projects can be found at the Port's website: www.sfport.com.

As part of a Port inspection program, Port Engineering staff has been performing facility condition surveys to identify and prioritize required maintenance projects that will preserve and extend the economic life of substructures and roofs of the Port's productive assets. Approximately $2.4 million was expended or committed from funds set aside for pier repairs identified in 2002. Pursuant to its capital plan, the Port has also funded $58.7 million for on-going facility improvement projects that are in various stages of completion.

Long-term obligations. Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 21 - 26 of this report. As of June 30, 2002, the Port had total long-term obligations of $38,987 including $4,720 that will mature during the next fiscal year. The total includes $2,000 in general obligation bonds which are backed by the full faith and credit of the City, $33,295 in revenue bonds, $3,584 in loans that are secured by specified revenue sources, and $108 in a capital lease obligation which is secured by certain equipment. The Port paid off the $8,700 outstanding balance of a commercial loan on July 2, 2001. No new debt was issued during the years ended June 30, 2002 and 2001. However, an additional $1,098 and $1,992 were drawn from the State loan to fund Hyde Street Harbor improvement expenditures during the years ended June 30, 2002 and 2001, respectively.

Economic and Other Factors

Economy. The general national and local economic downturn and the terrorist acts of September 11, 2001 has negatively affected tourist travel and tourist dependent sales venues in the City. The Port's restaurant and retail tenants have endured an extended period of reduced patronage. As is standard with retail leases, a minimum fixed rent is paid to the Port at the beginning of every month. Revenue loss to the Port is limited to some decline in overage rents (percentage rents above the minimum) and increased delinquencies. In 2002, the Port incurred a $2.0 million decline in rents from its restaurant and retail tenants that pay rents based on a percentage of gross sales and recorded a $1.0 million increase to the allowance account for bad debts. A vacancy factor in the 20% range and declining rents has hit real estate in the local downtown office market. In this environment, the Port has maintained its fixed rent roll at approximately $3.3 million per month. Most of the Port's property rentals are covered by term leases and Note 9 (page 26) contains required financial statement disclosure information covering the future rental income stream from minimum rents over the noncancellable term of active operating leases.

General economic conditions were taken into consideration in preparing the 2003 and 2002 budgets. At this time, it appears that economic recovery will be slow. It will likely take two to more years before positive effects of the recovery will be realized. City and Port managers will take prudent steps to closely monitor revenue streams and control expenditures through this period.

San Francisco Waterfront Special Area Plan. In July 2000, the Port agreed to amend its Waterfront Land Use Plan, and the San Francisco Bay Conservation and Development Commission (BCDC) its San Francisco Bay Plan to create consistent plans for the waterfront area between the Hyde Street Pier and China Basin (San Francisco Waterfront Special Area Plan). Among other things, the Special Area Plan commits the Port to expend up to $30 million over a 20-year period for the removal of certain piers and the construction of major public plazas and other public access improvements.

Assembly Bill No. 1389, signed by the Governor of California in October 2001 to authorize approval of the development plans for a cruise ship terminal at Piers 30-32, also ratifies the San Francisco Waterfront Special Area Plan adopted by the Port and BCDC. Among other things, the legislation accelerated a requirement for the construction of the public plaza area referred to as the Brannan Street Wharf. The estimated $15 million project is to be fully completed within five years of commencement of construction for the new cruise terminal (estimated to be 2008). The Port is aggressively seeking other funding sources (i.e. grants and contributions) to finance the required pier removals and public access improvements. Until sufficient funding from other sources is secured, the Port must commit significant capital funds for the Special Area Plan projects.

Other factors. The City has asserted that additional reimbursements for direct services may be due from the Port to the City. The Port's 2003 budget includes a $2.0 million set aside for the City's additional recovery for legally eligible costs of services rendered to the Port. The Port is working with the Mayor's Office, along with the City Controller and the City Attorney, to thoroughly review costs incurred by the City in support of the Port and its tenants versus the reimbursements and recoveries received by the City for such services. An independent consultant will be engaged to assist in this review and evaluation.

Requests for Information

This report is designed to provide a general overview of the Port of San Francisco's finances. The financial statements and related informative disclosures in the notes to the financial statements and required supplementary information is presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles." Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Information Officer or the Fiscal Officer at Pier 1, San Francisco, California, 94111.

Questions concerning the City and County of San Francisco or requests for a copy of the City's Comprehensive Annual Report should be addressed to:

OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO
City Hall, Room 316
#1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Port Commission
City and County of San Francisco
Port of San Francisco

Balance Sheet (In Thousands)

June 30,	2002	2001
Assets		
Current Assets:		
Cash and investments, held in City Treasury - Port operating fund	$ 59,584	$ 70,706
Cash outside City Treasury	5	5
Receivables - net	5,005	7,494
Materials and supplies	1,153	1,151
Prepaid insurance and other assets	1,148	553
Total current assets	66,895	79,909
Restricted Assets:		
Cash held in City Treasury:		
Lessee deposits	3,116	3,283
Capital outlay	889	1,766
Bond interest and redemption held by trustee	9,802	9,716
Capital outlay funds held by escrow agent	5,992	
Other - Lessee deposits	1,007	1,047
Total restricted assets	20,806	15,812
Capital Assets - net	243,632	238,936
Other Assets	8,672	10,227
Total assets	$ 340,005	$ 344,884
Liabilities		
Current Liabilities Payable from Current Assets:		
Accounts payable and accrued liabilities	$ 14,285	$ 12,737
Current maturities of long-term obligations	1,315	2,439
Accrued interest payable	157	213
Total current liabilities	15,757	15,389
Current Liabilities Payable from Restricted Assets:		
Current maturities of revenue bonds	3,405	3,235
Accrued bond interest payable	1,036	1,120
Lessee deposits	4,123	4,330
Deferred grants	16	12
Total payable from restricted assets	8,580	8,697
Noncurrent Liabilities	3,101	1,946
Deferred Revenue - Net of current portion	3,808	3,993
Long-term Obligations - Net of current maturities	34,267	45,275
Total liabilities	65,513	75,300
Net Assets:		
Invested in capital assets, net of related debt	213,399	197,434
Restricted	6,201	
Unrestricted	54,892	72,150
Total net assets	274,492	269,584
Total liabilities and net assets	$ 340,005	$ 344,884

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)

Years Ended June 30,	2002	2001
Operating Revenues:		
Commercial and industrial	$ 32,482	$ 31,990
Parking	7,380	8,189
Cargo	3,797	3,035
Fishing	1,488	1,350
Ship repair	1,000	960
Harbor services	915	848
Cruise	459	600
Other maritime	1,445	1,469
Other	1,528	1,904
Total operating revenues	50,494	50,345
Operating Expenses:		
Operations and maintenance	47,759	37,129
Depreciation and amortization	8,119	7,156
Total operating expenses	55,878	44,285
Operating income (loss)	(5,384)	6,060
Other Income (Expense):		
Interest and investment income	3,246	4,108
Interest expense	(2,816)	(3,302)
Gain from fire insurance settlement	8,774	
Loss from disposition of assets	(1,659)	(1,214)
Other non-operating income		5
Other non-operating expense		(5)
Total nonoperating revenues and expenses	7,545	(408)
Capital Contributions - Capital grants and other contributions	2,747	10,978
Special Item - Payment for property rights in perpetuity		25,700
Change in Net Assets	4,908	42,330
Net Assets - beginning of the year	269,584	227,254
Net Assets - end of the year	$ 274,492	$ 269,584

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands)

Years Ended June 30,	2002	2001
Cash Flows from Operating Activities:		
Cash received from tenants for rent	$ 44,153	$ 41,844
Cash received from customers	5,330	5,422
Deposits received from tenants and customers	623	950
Cash paid to employees for services	(19,912)	(18,392)
Cash paid to suppliers for goods and services	(10,156)	(9,013)
Cash paid for quasi-external transactions	(10,018)	(7,350)
Customer deposits returned	(364)	(441)
Net cash provided by operating activities	9,656	13,020
Cash Flows from Noncapital Financing Activities:		
Proceeds from operating grant		5
Operating grant expended		(5)
Proceeds from disaster assistance		2,748
Net cash provided by noncapital financing activities	-	2,748
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of property, plant and equipment	(14,074)	(26,666)
Dredging costs incurred	(1,395)	(3,073)
Additions to Waterfront land use plan		(74)
Payment fom City for real property rights		29,700
Capital grants received	3,123	13,042
Proceeds from loan	1,098	1,992
Contributed capital other than from grants	530	256
Net insurance proceeds from fire casualties	8,748	980
Principal payments on long-term debt	(13,344)	(5,521)
Interest payments on long-term debt	(2,367)	(3,174)
Demolition of a pier required by Special Area Plan	(851)	
Installation of water main transferred to PUC	(549)	
Interest expense capitalized	(9)	(58)
Proceeds from sale of materials		67
Net cash provided (used) by capital and related financing activities	(19,090)	7,471
Cash Flows from Investing Activities:		
Interest income received	3,172	3,248
Investments purchased by Trustee		(5,359)
Net cash (used) provided by investing activities	3,172	(2,111)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,262)	21,128
Cash and Cash Equivalents - Beginning of year	79,532	58,404
Cash and Cash Equivalents - End of year	$ 73,270	$ 79,532

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands) (Continued)

Years Ended June 30,	2002	2001
Noncash Capital and Related Financing Activities:		
Building (tenant) improvements financed by rent credits	$ 375	$ 494
Acquisition and construction of property, plant and equipment included in accounts payable and accrued liabilities	1,485	2,869
Loss on abandonment of property and equipment	259	1,281
Noncash Investing Activities:		
Change in fair value of cash and investments held in City Treasury	$ 174	$ 585
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ (5,384)	$ 6,060
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,119	7,156
Change in allowance for doubtful accounts	1,118	39
Net change in deferred revenue	573	(924)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	395	(1,499)
Materials and supplies	(2)	(2)
Prepaid insurance and other assets	2,050	1,133
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,954	548
Lessee deposits	(167)	509
Net cash provided by operating activities	$ 9,656	$ 13,020
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:		
Cash and investments held in City Treasury - Port operating fund	$ 59,584	$ 70,706
Cash deposit outside of City Treasury	5	5
Cash held in City Treasury:		
Lessee deposits	3,116	3,283
Capital outlay	889	1,766
Cash held by escrow agent	5,992	
Cash held by Trustee - Bond interest and redemption (see Note 2)	4,443	4,357
	74,029	80,117
Add - Change in fair value of cash and investments held in City Treasury	(759)	(585)
Cash and Cash Equivalents	$ 73,270	$ 79,532

The accompanying notes are an integral part of this statement.

Note 1 - Significant Accounting Policies:

a. Basis of Presentation:

The Port of San Francisco (Port) is an enterprise fund of the City and County of San Francisco (City). Only the accounts of the Port are included in these financial statements. There are no component units that should be considered for inclusion in the Port's financial reporting entity.

A five-member Port Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included as a component of the City's Comprehensive Annual Financial Report.

Prior to February 1969, the Port was owned by the State of California ("State") and administered by the San Francisco Port Authority, a State agency. In February 1969, the Port was transferred in trust to the City under the terms and conditions specified in the State statutes of 1968, Chapter 1333 ("Burton Act"), as amended, and ratified by the City's voters in November 1968.

Under the terms of the Burton Act, the State Legislature reserved the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust, provided that the State would then assume all lawful obligations related to such lands.

The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Substantially all of the Port's property rental customers are located within the boundaries of the City.

The Port's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Port applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City elected in 2001 to adopt early, the provisions of GASB Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." In accordance with GASB 34, the balance sheet presents the difference between assets and liabilities as net assets. Net assets are reported in three broad components, as applicable – invested in capital assets, net of related debt; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net assets, all Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net assets.

b. Cash and Investments:

The Port reports its investments at fair value based upon quoted market price. Fair value is defined as the amount that the Port could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short term investments are reported at cost (or amortized cost), which approximates fair value. For purposes of the statement of cash flows, all unrestricted and restricted cash and highly liquid investments with maturities of three months or less, when purchased, are considered to be cash equivalents. In addition, the Port considers its deposits with the City Treasurer (see Note 2) to be demand deposits and therefore cash for the purposes of the statement of cash flows.

c. Materials and Supplies

Materials and supplies are used for construction and maintenance of Port facilities and are stated at cost, on a first-in, first-out basis.

d. Restricted Assets

Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. A bond trustee holds these funds.

Capital outlay funds are restricted for use in construction and acquisition of equipment, due to restrictions from federal and state grant agreements and bond resolutions. A bank escrow agent holds certain insurance settlement proceeds received for the seismic upgrade of a pier.

e. Capital Assets

Land transferred to the City in February 1969 is stated at an amount which includes an increase over historical cost of $56,063,000. This amount was recorded by the State in prior years to reflect appraised values in 1929.

Other property, plant and equipment is carried at cost or at fair market value at the date received in the case of property received by donation or by termination of a lease. Donated surplus equipment received from the federal government is carried at an estimated value determined in accordance with federal guidelines. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. Land improvements (principally pavement and pier promenades) with a cost of approximately $19 million are not depreciated because, in the opinion of management, the assets will be maintained to provide indefinite useful lives. Building (tenant) improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the related lease. Maintenance and repairs are expensed as incurred.

Interest paid on bond funds used for construction purposes, less interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, if applicable, is capitalized from the date of borrowing through the construction period.

f. Other Assets

Bond issue costs are amortized using the straight-line method over the life of the bond. Original bond issue premiums are offset against the related debt and amortized using the straight-line method over the life of the bonds.

Loan issue costs are amortized using the straight-line method over the outstanding term of the loan.

Dredging costs are amortized using the straight-line method over the estimated useful period ranging from one to seven years.

Waterfront Land Use Plan (Plan) costs are amortized using the straight-line method over an estimated life of 20 years. The Plan was approved by the City Board of Supervisors in September 1997.

g. Deferred Revenue

Deferred revenue consists primarily of rent credits issued to customers. Deferred revenue is recognized in accordance with the lease agreements and is amortized using the straight-line method over the term of the specific leases.

h. Refunding Debt:

The Port's revenue bonds were refunded in 1994 (see Note 8). The difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a reduction of the bonds payable. The amount is being amortized on a straight-line basis over 15 years.

i. Capital Contributions:

The Port, at various times, receives federal and state grants and funds from other external sources for construction of waterfront facilities. The funds are reported as capital contributions on the Statement of Revenues, Expenses and Changes in Net Assets.

j. Environmental Expenses:

The Port incurs costs associated with environmental clean-up which arise during the normal course of business. These costs are recorded as a liability when the Port is required to perform the cleanup and the costs can be reasonably estimated.

k. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments:

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments as part of the City's pool of cash and investments. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of risk associated with the City's pooled cash and investments.

Cash and investments, reported at fair value, at June 30, 2002 and 2001 are as follows (in thousands):

	2002	2001
Cash and investments with City treasury	$ 59,584	$ 70,706
Cash outside City treasury	5	5
Restricted assets:		
Cash and investments with City treasury	4,005	5,049
Deposits and investments outside City treasury:		
Cash and investments held by bond trustee	9,802	9,716
Cash and investments held by escrow agent	5,992	
Lessee deposits	859	984
	$ 80,247	$ 86,460

Cash deposits consist of the following (in thousands):

	June 30, 2002		June 30, 2001	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Federally insured deposits	$ 788	$ 787	$ 923	$ 922
Uninsured and uncollateralized deposits	76	76	66	66
	$ 864	$ 863	$ 989	$ 988

Lessee security deposits are held on behalf of the Port by third party trustees and invested in renewable certificates of deposit. Two security deposit accounts have bank balances that exceed the federal insurance limit.

At June 30, 2002 and 2001, cash and investments held in reserve and for debt service payments by trustee consist of:

	2002	2001
	(in thousands)	
Reserve Fund:		
U.S. Treasury Obligation Fund	$ 2	$ 2
U.S. Treasury Note	5,198	5,211
Accrued Interest	161	148
Debt Service Funds:		
U.S. Treasury Obligation Fund	4,441	4,355
	$ 9,802	$ 9,716

Investments, other than the U.S. Treasury Note, may be withdrawn on demand and meet the criteria of cash or cash equivalent for cash flow statement purposes.

All investments held by the bank escrow agent are in a money market mutual fund.

Note 3 - Receivables:

At June 30, 2002 and 2001, receivables consisted of:

	2002	2001
	(in thousands)	
Trade accounts receivable	$ 3,931	$ 3,456
Less allowance for doubtful accounts	(1,385)	(267)
	2,546	3,189
Accrued income and other amounts due from tenants	1,083	1,799
Grants receivable	863	1,765
Federal and state disaster assistance receivable	7	12
Insurance proceeds receivable	26	
Accrued interest receivable	480	580
Other receivables		149
	$ 5,005	$ 7,494

Note 4 - Capital Assets:

At June 30, 2002 and 2001, capital assets consisted of:

	2002	2001	Estimated Useful Life (Years)
	(in thousands)		
Land and land improvements	$ 119,512	$ 118,809	
Buildings, structures and related improvements	249,828	216,149	5 - 59
Furniture, machinery and equipment	11,480	9,965	2 - 20
Total	380,820	344,923	
Less accumulated depreciation	(155,972)	(148,951)	
	224,848	195,972	
Construction work in progress	18,784	42,964	
Total	$ 243,632	$ 238,936	

Total interest cost was $2,405,000 and $3,196,000 for fiscal years 2002 and 2001, of which $9,000 and $58,000 was capitalized, respectively. Total interest earned was $3,072,000 and $3,226,000 for fiscal years 2002 and 2001, of which $0 was capitalized in 2002 and 2001.

The cost of fully depreciated assets still in use was approximately $79,169,000 and $76,633,000 at June 30, 2002 and 2001, respectively. Buildings, structures and improvements include pier substructures, which have an estimated useful life greater than 50 years. Such long-lived assets total $20,226,000 as of June 30, 2002 and 2001.

Note 5 - Other Assets:

Other assets at June 30, 2002 and 2001, net of related amortization, consisted of:

	2002	2001
	(in thousands)	
Deferred debt and loan issue costs	$ 370	$ 675
Dredging costs	5,600	6,692
Waterfront land use plan	2,540	2,689
Other deferred costs	162	171
	$ 8,672	$ 10,227

Note 6 - Accounts Payable and Accrued Liabilities:

At June 30, 2002 and 2001, accounts payable and accrued liabilities consisted of:

	2002	2001
	(in thousands)	
Accounts payable	$ 1,981	$ 3,916
Current portion of deferred revenue	5,792	4,659
Accrued liabilities	4,164	2,013
Accrued payroll, compensated absences and related costs	2,348	2,149
	$ 14,285	$ 12,737

Note 7 - Noncurrent Liabilities:

At June 30, 2002 and 2001, noncurrent liabilities consisted of:

	2002	2001
	(in thousands)	
Compensated absences and related costs	$ 844	$ 819
Workers' compensation	1,857	849
Litigation, claims and judgments	400	278
	$ 3,101	$ 1,946

Note 8 - Long-Term Obligations:

Long-term obligations at June 30, 2002 and 2001 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2002	Balance 2001
			(in thousands)	
Revenue bonds	5.00 - 9.00	2010	$ 33,295	$ 36,416
General obligation bonds	4.50 - 6.30	2003 - 2005	2,000	3,200
Loans payable	Variable	2008 - 2029	3,584	11,186
Capital lease	6.31	2005	108	147
Total long-term obligations			38,987	50,949
Less current maturities			(4,720)	(5,674)
Net long-term obligations			$ 34,267	$ 45,275

The following is a summary of changes in long-term obligations for the years ended June 30, 2002 and 2001 (in thousands):

	Revenue Bonds	General Obligation Bonds	Loans	Capital Lease	Total
Balances as of June 30, 2000	$ 39,386	$ 4,400	$ 10,394	$ 183	$ 54,363
Additional obligations			1,992		1,992
Current maturities, retirements and other decreases	(2,970)	(1,200)	(1,200)	(36)	(5,406)
Balances as of June 30, 2001	36,416	3,200	11,186	147	50,949
Additional obligations			1,098		1,098
Current maturities, retirements and other decreases	(3,121)	(1,200)	(8,700)	(39)	(13,060)
Balances as of June 30, 2002	$ 33,295	$ 2,000	$ 3,584	$ 108	$ 38,987

The annual requirements to amortize all outstanding long-term obligations are as follows (in thousands):

	Bonds	Loans	Capital Lease	Total
Year Ending June 30:				
2003	$ 6,693	$ 232	$ 47	$ 6,972
2004	5,764	232	47	6,043
2005	5,794	232	25	6,051
2006	5,361	232		5,593
2007	5,355	232		5,587
2008 – 2012	15,999	1,159		17,158
2013 – 2017		1,158		1,158
2018 – 2022		1,159		1,159
2023 – 2027		1,158		1,158
2028 – 2029		463		463
Total debt service	44,966	6,257	119	51,342
Less - interest	(9,671)	(2,673)	(11)	(12,355)
Total liability - June 30, 2002	$ 35,295	$ 3,584	$ 108	$ 38,987

Bonds

Bond obligations at June 30, 2002 and 2001 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2002	Balance 2001
			(in thousands)	
General Obligation Bonds:				
City and County of San Francisco - Harbor Improvement 1971:				
Series A	4.50	2003	$ 800	$ 1,600
Series B	6.30	2005	1,200	1,600
Total General Obligation Bonds			2,000	3,200
Revenue Bonds:				
Series 1994	5.00 - 9.00	2010	34,095	37,330
Total Revenue Bonds			34,095	37,330
Total Bond Obligations			36,095	40,530
Less:				
Current maturities			(4,605)	(4,435)
Unamortized Revenue Bond Series 1994 bond premium			303	347
Deferred amount on refunding			(1,103)	(1,261)
Net Bond Obligations			$ 30,690	$ 35,181

In 1994, the Port issued $53,610,000 in Revenue Refunding Bonds, Series 1994 with an average interest rate of 5.8 percent to refund $49,975,000 of outstanding 1984 Revenue Bonds, Series A, B and C with an average interest rate of 8.4 percent.

The refunding resulted in a difference between the reacquisition price (principal of the old debt plus call premium) and the net carrying amount of the old debt of $2.36 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2010 using the straight line method.

Under the terms of the Revenue Refunding Bonds, Series 1994 Indenture, the Port is required to deposit with a trustee in a reserve fund, an amount equal to the lesser of (a) maximum debt service accruing in any year during the life of such bonds, (b) ten percent (10%) of the proceeds derived from the sale of Series 1994 Bonds, or (c) 1.25 times the average annual debt service due with respect to Series 1994 Bonds. At June 30, 2002, the Port was in compliance with this bond indenture requirement.

While Series 1994 Bonds are outstanding, the Port may not create liens on its property essential to operations, dispose of any property essential to maintaining revenues or operating the Port, and must maintain specified insurance. The Port may issue additional bonds under the 1994 Indenture provided the Port complies with the Additional Bonds Test, as defined in the indenture.

Covenants of the 1994 Indenture include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees, and charges for the use of Port property and for services rendered by the Port so that the Net Revenue, as defined in the bond indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2002, the Port was in compliance with such bond covenants.

The revenue bonds are secured by a pledge of Net Revenues of the Port, as defined by the bond indenture. Certain general obligation bonds issued by the City are subordinated to the revenue bonds and any future senior lien revenue bonds.

The Series 1994 Revenue Bonds are subject to an arbitrage rebate requirement. The requirements stipulate, in general, that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. Estimated arbitrage liability was $88,000 and $46,000 as of June 30, 2002 and 2001, respectively.

Loans

The Port has entered into a loan agreement with a State Agency for $3.5 million to finance a certain capital project. The loan is subordinate to all bonds payable by the Port. Interest accrues at a rate of 4.5% per annum on the unpaid balance commencing with the first draw on the loan. The term is 30 years from the date of the first draw, which occurred in April 1998. The loan is secured by Gross Revenues as defined in the loan agreement. If the project is not completed by August 2002, all loan moneys expended prior to such date will become a current obligation of the Port and payable to the lender. Other operating conditions apply upon completion of the project. The project was completed as scheduled in 2002 and annual payments are commencing on August 1, 2002.

In 1998, Port entered into a commercial loan agreement for $12 million to finance certain capital projects. The entire balance outstanding of $8,700,000 as of June 30, 2001 was paid off on July 2, 2001. The loan was subordinate to all bonds payable by the Port. The loan interest rate (5.68% at June 30, 2001) adjusted with the LIBOR rate. The loan was secured by a lien on and security interest in Net Revenue as defined in the loan agreement. Covenants of the loan agreement include that the Port maintain its business operations, and establish, and maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port so that Net Revenue, as defined in the loan agreement, less the annual debt service on the Revenue and City Bonds in each fiscal year will be at least equal to 115% of aggregate annual debt service for such fiscal year. The Port was in compliance with such loan covenants through the pay-off date of July 2, 2001.

Loans at June 30, 2002 and 2001, consisted of:

	2002	2001
	(in thousands)	
Commercial loan payable to a bank, quarterly installments of $300,000 plus interest through July 2008		$ 8,700
Loan payable to State Agency, including deferred interest of $84,000	$ 3,584	2,486
Total loans payable	3,584	11,186
Less current portion	(74)	(1,200)
Net loans payable	$ 3,510	$ 9,986

Capital Lease

In 1999, the Port entered into a lease purchase agreement for certain equipment. This lease arrangement is accounted for as a capital lease. At June 30, 2002, equipment under this lease arrangement totaled approximately $200,000 and accumulated amortization on those assets at June 30, 2002 and 2001 totaled $70,000 and $39,000, respectively.

Note 9 - Operating Revenues - Property Rentals:

Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. Property rental revenues were comprised as follows:

	2002	2001
	(in thousands)	
Minimum rentals	$ 37,735	$ 36,110
Percentage rentals	6,502	8,542
	$ 44,237	$ 44,652

Minimum future rental income under noncancellable operating leases having terms in excess of one year are as follows:

Year Ending June 30	(in thousands)
2003	$ 26,858
2004	23,851
2005	22,023
2006	19,302
2007	18,263
Thereafter	418,232
Total	$ 528,529

The approximate cost of property subject to operating leases and property held for lease at June 30, 2002 consisted of:

	(in thousands)
Land and land improvements	$ 52,552
Buildings, structures, and related improvements at cost, less accumulated depreciation of $141,691	55,109
Total	$ 107,661

Note 10 - Employee Benefit Plans:

a. Retirement Plans:

City and County of San Francisco

Plan Description - The City has a single-employer defined benefit retirement plan (Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The plan covers substantially all full-time employees of the Port along with other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102 or by calling (415) 487-7020.

Funding Policy - Contributions are made to the basic plan by both the Port and employees. Employee contributions are mandatory. Employee contribution rates for 2002 and 2001 were between 7% to 8% as a percentage of covered payroll. The Port is required to contribute at an actuarially determined rate. No Port contributions were required for the years ended 2002, 2001 and 2000 as the actuarially determined contribution rate as a percentage of covered payroll was 0%. The Port's contributions to the Retirement System on behalf of its employees amounted to $1,210,000, $1,143,000 and $1,021,000 for the years ended June 30, 2002, 2001 and 2000, respectively, which was equal to the required employee contributions for those years.

State of California:

Plan Description - The Port also contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. Certain employees who commenced their employment at the Port prior to February 1969 are eligible to participate in PERS. Benefit provisions and all other requirements are established by state and city ordinances. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy - Participating employees are required to contribute 7 percent of their salary to PERS. The Port is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by PERS actuaries and actuarial consultants and adopted by the Board of Administration.

There were no contributions required in 2002, 2001 and 2000. The City's Comprehensive Annual Financial Report contains disclosures for all covered City employees. Amounts for the Port are not separable from the City totals.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the deferred compensation plan assets pertaining to the Plan are no longer included in the City's financial statements. Previously, the assets of an eligible IRC 457 plan were considered the property of the City and the assets of the plan and related liability to plan participants were reported in an agency fund on the City's financial statements.

The amounts deferred by Port employees totaled $934,000, $888,000, and $763,000 for 2002, 2001 and 2000, respectively.

Health Care Benefits

Health care benefits of Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port's contribution, which amounted to approximately $637,000, $554,000 and $502,000 in fiscal years 2002, 2001 and 2000, respectively, is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The cost of providing benefits for the retirees is not separable from the cost of providing benefits for the active employees. The Port's liability for both current employee and post retirement health care benefits is limited to its annual contribution.

Note 11 - Related Party Transactions:

The Port receives services from, and provides services to, various City departments. The cost of services received, included as operating expenses in the financial statements, was approximately $10,018,000 in 2002 and $7,350,000 in 2001. Services provided, included in operating revenue, amounted to approximately $4,195,000 and $3,522,000 in 2002 and 2001, respectively. Receivables relating to such transactions are disclosed in Note 3.

In accordance with a guaranteed payment agreement for parking fine revenues collected from Port property, the Port received $1.2 million from the Department of Parking and Traffic in 2002 and 2001.

Note 12 - Fire Insurance Proceeds:

On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower. Insurance was in force to cover fire damage to the Port's property at Pier 48 and Pier 43. The gain recognized as other income in the Statement of Revenues, Expenses and Changes in Net Assets represents proceeds received or receivable for construction repair in excess of clean-up expenses incidental to the casualty.

In January 2002, the Port and its insurers reached a settlement to resolve disputes regarding coverage for damage caused by the Pier 48 fire and the required construction repairs, including code upgrades. The Port received insurance payments of $6,770,000 for approved repairs. An additional $8,000,000 was placed in an escrow account to fund certain seismic retrofit work. The settlement includes $7,293,000 compensation to a specific contractor for design and construction of the seismic work, $543,000 for Port inspection and construction management costs and a construction contingency of $164,000. Upon completion of the project and after final payment of the contractor, the remaining amount in the escrow account reverts to the Port.

Through June 30, 2002, the Port has received interim insurance payments of $850,000 for Pier 43. Receivables at June 30, 2002 include an additional $26,000 for approved construction repairs. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled.

Note 13 - Commitments, Litigation and Contingencies:

a. Commitments

The Port is presently planning various development projects which involve a commitment to expend significant funds. The Port had firm purchase commitments at June 30, 2002 for approximately $9,230,000 for capital projects and $1,664,000 for general operations.

Under an agreement with The San Francisco Bay Conservation and Development Commission finalized in 2001 (The San Francisco Waterfront Special Area Plan), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2002 $1,535,000 has been appropriated and $887,000 has been expended for projects under the agreement.

b. Litigation

The Port is a defendant in various lawsuits and claims; most deal with personal injury or property damage resulting from accident or fire and are covered by insurance. In the opinion of counsel the likelihood of an unfavorable outcome is probable in some of the suits and, accordingly, accrued liabilities include the aggregate amount of deductibles under applicable insurance policies. However, a number of the lawsuits are in the discovery stages and counsel to the Port cannot express an opinion as to the possible outcome of such litigation. Port's management believes that the ultimate resolution of such matters is not expected to have a material effect on the Port's financial position or results of operations.

c. Contingencies

Risk Management

The Port is subject to various risks of loss including general liability, property and casualty, workers' compensation and employee health and accident. The Port carries commercial insurance for all risks of loss except workers' compensation and employee health and accident. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not recorded claims, is provided by the City. The workers' compensation liability as of June 30, 2002 and 2001 has been evaluated by an independent actuary.

Changes in the reported liability reserves for 2002 and 2001 resulted from the following activity:

	General Liability		Workers' Compensation	
	2002	2001	2002	2001
	(in thousands)			
Beginning of the year	$ 311	$ 250	$ 1,145	$ 1,074
Current year claims and changes in estimate	1,390	96	1,965	397
Claim payments	(101)	(35)	(640)	(326)
End of year	$ 1,600	$ 311	$ 2,470	$ 1,145

The general liability and workers' compensation liability are included in accrued liabilities in the financial statements.

Grants

Certain grants that the Port receives are subject to audit and final acceptance by the granting agency based upon their review of costs incurred. Port's management does not believe that such audits will have a material impact on the financial statements.

Environmental

In September 2002, the Port received a notice of violation from the California Department of Toxic Substances Control (DTSC) in connection with the presence of approximately 15,000 cubic yards of soil contaminated with soluble lead in concentrations that classify it as hazardous waste in California. A former tenant operated a soil disposal service and abandoned the contaminated soil after declaring bankruptcy in 1995 and ceasing operations in 1996. DTSC required the Port to take all necessary steps to prevent public and unauthorized access to the waste pile and to prevent the release of hazardous waste constituents to the environment from the waste pile. The soil has been tested to identify potential reuse or disposal options. Port management has obtained current estimates ranging from $800,000 to $1,200,000. These estimates include at the low end, processing the soil on-site to produce concrete-treated base for road and other construction projects, or to reduce lead concentrations and transferring the soil to solid waste landfills for disposal. The high end of the range represents the cost to dispose of the soil as non-hazardous material in an out-of-state landfill. DTSC must approve any action to move or treat the soil. The Port recorded a provision of $800,000 for the remediation of the contaminated soils as of June 30, 2002.

The Port has one pier site that is a regulated landfill that is under a closure order from the California Regional Water Quality Control Board (RWQCB). The RWQCB has eliminated the requirement for groundwater monitoring at the pier. The closure order is likely to be modified as the proposed redevelopment of the Pier 94 backlands area become more clear. The estimated cost to close the landfill site in compliance with the original closure has been estimated at $3.0 million.

The Port has identified certain other environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination. The Port may be required to perform certain clean up work if it intends to develop or lease the property, or at such time as required by the city or state. The Port estimates such costs to be in the range from $0.4 million to $3.2 million if significant groundwater contamination is identified.

Note 14 - Subsequent Event:

Effective July 1, 2002, the City established, on a pilot basis, a Wellness Incentive Program (the Program) to promote workforce attendance. Under the Program, any full-time employee leaving employment of the City upon service or disability retirement may receive payment for a portion of accrued sick leave credits at the time of separation. The amount of this payment is based on two and one-half percent of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, is not included in this computation. Future payments under the Program are not deemed material to the Port's operating results.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

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FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2003 AND 2002

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez,
Delgado & Co., LLP
Certified Public Accountants

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CITY AND COUNTY OF SAN FRANCISCO
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Port Commission
City and County of San Francisco
Port of San Francisco

Financial Statements and
Independent Auditors' Report

Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 9
Financial Statements:	
Balance Sheet	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12 - 13
Notes to Financial Statements	14 - 34

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Rodriguez, Perez, Delgado & Co., LLP
Certified Public Accountants

Independent Auditors' Report

THE HONORABLE EDWARD HARRINGTON
CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

We have audited the accompanying balance sheet of the **PORT COMMISSION, CITY AND COUNTY OF SAN FRANCISCO, PORT OF SAN FRANCISCO (the Port)** as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hood & Strong LLP Rodriguez, Perez, Delgado & Co., LLP

October 10, 2003, except for
Note 11 as to which the date is November 18, 2003

Overview of the Financial Statements

This discussion and analysis is a narrative overview and analysis of the financial activities of the Port of San Francisco (Port). It serves as an introduction to the audited financial statements, which can be found on pages 10 - 34 of this report. This overview should be read in conjunction with the more detailed information contained within the accompanying financial statements.

The Port is a self-supporting enterprise department of the City and County of San Francisco (City) and its financial operations are included as a component of the City's Comprehensive Annual Financial Report. Only the accounts of the Port are included in the financial statements that follow. The Port Commission is responsible for seven and one-half miles of waterfront property, which was transferred in trust from the State of California to the City in 1969. The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Additional information concerning the Port's organization and the basis of presentation for this financial report is contained in Note 1 to the financial statements (pages 14 - 15).

The Balance Sheet presents information on all of the Port's assets and liabilities, with the difference between the two reported as "net assets." Increases and decreases in net assets serve as a useful indicator of the financial position of business enterprise entities like the Port. Comparative information of the Port's financial position is presented as of June 30, 2003 and 2002.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's net assets changed during the most recent two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected rents from tenants and earned, but unused vacation leave).

The Statement of Cash Flows presents information about the cash receipts and cash payments of the Port during the most recent two fiscal years. This statement shows the effects on financial position of cash and non-cash operating, investing, capital, and financing transactions. When used with related disclosures and information in the other financial statements, the information in the Statement of Cash Flows helps readers assess the Port's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 14 - 34 of this report.

Following is a presentation of certain condensed financial information derived from the basic financial statements.

Condensed Financial Information – Port of San Francisco

Comparative Net Assets (in thousands)

	June 30, 2003	June 30, 2002	Change	% Change
Current and other assets	$ 82,817	$ 96,373	$ (13,556)	(14.1)
Capital assets	247,655	243,632	4,023	1.7
Total assets	330,472	340,005	(9,533)	(2.8)
Long-term debt obligations	34,382	38,987	(4,605)	(11.8)
Other liabilities	28,018	26,526	1,492	5.6
Total liabilities	62,400	65,513	(3,113)	(4.8)
Net assets:				
Invested in capital assets, net of related debt	222,211	213,399	8,812	4.1
Restricted	2,128	6,201	(4,073)	(65.7)
Unrestricted	43,733	54,892	(11,159)	(20.3)
Total net assets	$ 268,072	$ 274,492	$ (6,420)	(2.3)

Changes in Net Assets (in thousands)

	Year Ended June 30, 2003	Year Ended June 30, 2002	Change	% Change
Revenues:				
Program revenues:				
Rents and other operating revenues	$ 54,467	$ 50,494	$ 3,973	7.9
Capital grants and other contributions	726	2,747	(2,021)	(73.6)
General revenues	2,168	12,020	(9,852)	(82.0)
Total revenues	57,361	65,261	(7,900)	(12.1)
Total expenses	63,781	60,353	3,428	5.7
Increase (decrease) in net assets	(6,420)	4,908	(11,328)	(230.8)
Net assets, beginning of the year	274,492	269,584	4,908	1.8
Net assets, end of the year	$ 268,072	$ 274,492	(6,420)	(2.3)

Financial Analysis (in thousands)

Assets exceeded liabilities by $268,072 at the close of the most recent fiscal year. Total net assets as of June 30, 2003 decreased $6,420 from June 30, 2002. This decrease compares to a $4,908 increase posted for the previous year. This change is largely attributed to different nonrecurring revenue and expense transactions recorded in these fiscal years. Total revenues reported for the year ended June 30, 2003 were, in the aggregate, $7,900 less than the previous year. Total expenses in 2003 increased $3,428 over 2002. Some of the more significant variances and nonrecurring transactions are discussed below.

The largest portion of the Port's net assets, 83 percent at June 30, 2003 and 78 percent at June 30, 2002, reflects its investment in capital assets (e.g. land, buildings and equipment). The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. As disclosed in Note 1 to the financial statements, land transferred from the State of California to the City is reported at an amount which includes an increase over historical cost of $56,063. This amount was recorded by the State to reflect appraised values in 1929. The total amount of net assets tied to capital assets ($222,211 at June 30, 2003) represents assets that are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources (i.e. other Port assets or operating revenues). The capital assets themselves cannot be used to liquidate those liabilities. The remaining portion of net assets at June 30, 2003 consists of $2,128 restricted by current agreements for specified capital expenditures and $43,733 that is unrestricted and available to meet the Port's ongoing obligations and future capital investments.

The Statement of Revenues, Expenses and Changes in Net Assets on page 11 presents the Port's operating revenues in more detail by industry revenue types. Operating revenues for the year ended June 30, 2003 increased $3,973 or 7.9%. Declines in capital grants and contributions and in general revenues more than offset the increase in operating revenues. Maritime operations, including cargo facility rents and cargo vessel revenues, posted increased revenues of $1,862. New lease and/or expansion agreements were executed at marine terminal facilities. The increase in vessel revenues however are more than offset by increased operating costs pursuant to a terminal operating agreement. Cruise revenue increased by $504 as a direct result of increased calls, passenger counts and tariff changes. Reflective of current general economic conditions, commercial and industrial rent revenues declined a net $445 in 2003. This decrease resulted largely from lease renewals at market rates, renegotiated leases and lost rents from certain vacated premises. The total decrease was offset by certain scheduled rent increases and a modest recovery of percentage (overage) rents from the Port's restaurant and retail tenants, who were deeply impacted by the economic downturn which began in 2001. The increase of $1,961 in Other Operating Revenues includes $400 from a federal security assessment grant and various one-time fees realized from maritime facility leases and major development projects on Port property.

Capital grants and contributions consist principally of funds received or receivable from federal and state grant agencies which provide funding for many of the Port's capital projects. Currently no major grant funded projects are in construction phase. Most of the $2,021 decline in 2003 is attributable to the Downtown Ferry Terminal project which was placed in service during fiscal 2002.

All revenues not reported in the foregoing condensed summaries as Program Revenues, as defined in Government Accounting Standards Board Statement No. 34, are presented as General Revenues. General Revenues for 2003 and 2002 consisted of the gain from fire insurance proceeds received for the construction repairs at Pier 48 and Pier 43 ($394 and $8,774, respectively) and interest and investment income ($1,774 and $3,246, respectively).

Total expenses of $63,781 for 2003 represent a $3,428 increase over 2002. Comparatively, total expenses in 2002 of $60,353 were $11,547 over 2001. Much of the increases these last two years have been due to one-time charges. Increases also occurred in certain operating costs where management expects some normalization in future periods. Some of the more significant cost increases in 2003 and 2002 were:

	Cost Increases	
	2003	2002
Asset dispositions, including capital projects charged to expense:		
Recovery of damaged surplus dry dock	$ 1,716	
Pier 34 demolition and removal		$ 851
Other pier removal and related costs of asset disposition	892	
Water main improvements transferred to San Francisco PUC		549
Additional reimbursement due to the City for services	2,000	
Guaranteed compensation to terminal operator at Pier 80	1,249	1,501
Workers compensation costs		1,568
Claims and judgments		1,294
Remediation of contaminated soils at Pier 92	800	800
Insurance costs due to higher premiums	572	384

As described in Note 12 to the financial statements, $1,716 was expended during the year ended June 30, 2003 to recover and secure a surplus dry dock that went adrift on November 7, 2002 during a storm. The floating dry dock is now moored in a safe harbor area while the Port considers final removal and salvage options.

Operating expenses and accrued liabilities at June 30, 2003 include $2,000,000 due to the City for additional reimbursable service costs. As discussed in Note 11, cost reimbursements from the Port to the City must follow the legal restrictions contained in the State transfer agreement and the Burton Act. An outside consultant has been engaged to review the balance of payments between the Port and City ("nexus study"). The study will establish a record of past expenditures and should provide a systematic means for determining the balance of payments for future periods.

The management agreement between the Port and its terminal operator at Pier 80 was amended and changed the underlying arrangement to one of guaranteed compensation to the terminal operator effective September 2001. The gross amount due to the terminal operator under this amendment has been recorded as an operating expense in the accompanying financial statements.

As discussed in Note 14, the Port received a September 2002 notice of violation from the California Department of Toxic Substances Control (DTSC) in connection with a large quantity of abandoned soil on Port property. The soil was contaminated with soluble lead in concentrations that classify it as hazardous waste in California. Management initially considered remediation options with costs in the range of $800 to $1,200 and accrued $800 in connection with the June 30, 2002 financial statements. The Port ultimately selected and obtained approval for immediate removal of the soils to an out-of-state landfill. The final completed cost of the removal and related costs amounted to $1,600.

Capital Asset and Debt Administration

Capital assets. The Port's investment in capital assets as of June 30, 2003 amounts to $247.7 million, net of accumulated depreciation. This investment in capital assets includes land, certain street and road improvements, pier promenades, pier substructure, buildings and related improvements, vehicles, equipment and furniture. As of June 30, 2003, capital assets, net of depreciation and amortization, increased about two percent over 2002. Additional information on the Port's capital assets can be found in Note 4 on page 20 of this report.

Port Engineering staff has been performing facility condition surveys to identify and prioritize required maintenance projects that will preserve and extend the economic life of the Port's productive assets. At June 30, 2003, $20 million remain appropriated for capital project related expenditures, including identified pier repair and major maintenance projects.

Major capital asset events of fiscal 2003 and 2002 included the following:

- The new Downtown Ferry Terminal was placed in service during fiscal 2002. The $20 million project was funded by $16 million in grants and the balance by Port capital funds. Project work includes new ferry landing areas to the north (Gate B) and south (Gate E) of the Ferry Building, and a new breakwater south of Gate E. Gate E opened for operations in October 2001 and Gate B in May 2002. Certain promenade improvements were also completed in concert with the Ferry Building renovation project.
- Insurance-funded repairs to fire-damaged facilities at Pier 48, including certain seismic repairs to the pier, were completed in June 2003. Just under $15 million of construction work has been completed. Electrical service upgrades for the pier were also in progress at June 30, 2003. The pier will return to leasable inventory in fiscal 2003-4.
- Completed insurance-funded repairs to the historic ferry arch at Pier 43. Total construction and related costs were $1.5 million, of which approximately $1.3 million was funded by insurance.

- Approximately $2.8 million was expended to repair the marginal wharf area adjacent to the seawall at the entrance to Pier 3. The completed work was required to preserve the main entrance and public access breezeway at the pier.

The Port has entered into a number of public/private partnerships with developers for the historical preservation, renovation, and redevelopment of Port properties. Current information concerning major development projects and opportunities can be found at the Port's website: www.sfport.com. The more significant activities and events include:

Ferry Building Rehabilitation – Redevelopment of the Ferry Building was completed and the building re-opened in Spring 2003. Tenant improvement work for subtenants is in progress. The landmark building, restored to former grandeur, has ground floor retail, transportation and public uses, and upper floor office and other commercial uses.

Piers 1½ - 5 – The project development agreement and lease was approved by the Port Commission in March 2003. The lease was also approved by the Board of Supervisors in August 2003. The project calls for rehabilitation of historic bulkhead buildings with ground floor restaurants, upper floor office, public access walkways, boat docks and a water taxi landing. Construction is anticipated to start in Fall 2003, with project completion in about 24 months.

Bryant Street Piers Mixed Use and Cruise Terminal Development – The project transaction documents were also approved by the Port Commission in March 2003 and by the Board of Supervisors in July 2003. The project is planned as a mixed use development with a two-berth cruise ship terminal, ground floor retail and restaurant, and upper floor office and entertainment uses on Piers 30-32. A related residential development is planned on Seawall Lot 330. Construction of the residential condominium tower is expected to commence in early 2004. The Port is also progressing with the development of a related bayfront urban park (Brannan Street Wharf) on The Embarcadero between Piers 30-32 and Pier 38.

Other development projects are in various stages of review and negotiation under exclusive rights agreements.

Long-term obligations. Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 22 - 26 of this report. As of June 30, 2003, the Port had total long-term obligations of $34,382 including $4,113 that will mature during the next fiscal year. The total includes $800 in general obligation bonds which are backed by the full faith and credit of the City, $30,004 in revenue bonds, $3,510 in loans that are secured by specified revenue sources, and $68 in a capital lease obligation which is secured by certain equipment. No new debt was issued during the years ended June 30, 2003 and 2002.

Economic and Other Factors

Economy. The general national and local economic downturn and the events of and subsequent to September 11, 2001 have negatively affected tourist travel and tourist dependent sales venues in the City. The Port's restaurant and retail tenants have endured an extended period of reduced patronage. As is standard with retail leases, a minimum fixed rent is paid to the Port at the beginning of every month. Revenue loss to the Port has been limited to some decline in overage rents (percentage rents above the minimum) and increased delinquencies. While a vacancy factor in the 20% range and declining rents has hit the local downtown office market, Port properties have fared much better. The Port has been able to maintain a fixed rent roll at approximately $3.3 million per month. Most of the Port's property rentals are covered by term leases and Note 9 (page 27) contains required financial statement disclosure information covering the future rental income stream from minimum rents over the noncancellable term of active operating leases.

The economic recovery has been fairly slow. It will likely be several years before the positive effect of this recovery will be realized. General economic conditions were taken into consideration in preparing current budgets and forecasts. The Port currently expects, in the aggregate, to be able to maintain revenues at current levels with modest year-to-year growth. City and Port managers will take prudent steps to closely monitor revenue streams and to control expenditures through this transitionary period.

San Francisco Waterfront Special Area Plan. In July 2000, the Port agreed to amend its Waterfront Land Use Plan, and the San Francisco Bay Conservation and Development Commission (BCDC) its San Francisco Bay Plan to create consistent plans for the waterfront area between the Hyde Street Pier and China Basin (San Francisco Waterfront Special Area Plan). Among other things, the Special Area Plan commits the Port to expend up to $30 million over a 20-year period for the removal of certain piers and the construction of major public plazas and other public access improvements. As of June 30, 2003 $3.1 million has been appropriated and $0.9 million has been expended for projects under the agreement.

Assembly Bill No. 1389, signed by the Governor of California in October 2001 to authorize approval of the development plans for a cruise ship terminal at Piers 30-32, also ratifies the San Francisco Waterfront Special Area Plan adopted by the Port and BCDC. Among other things, the legislation accelerated a requirement for the construction of the public plaza area referred to as the Brannan Street Wharf. The estimated $15 million project is to be fully completed within five years of commencement of construction for the new cruise terminal (estimated to be 2008). The Port is aggressively seeking other funding sources (i.e. grants and contributions) to finance the required pier removals and public access improvements. Until sufficient funding from other sources is secured, the Port must commit significant capital funds for the Special Area Plan projects.

Port security. The Port is a recipient of the Port Security Grants Program, which was established by the federal government to finance security enhancements at critical national seaports. Under this program, managed by the Transportation Security Administration, the Port received a first round grant in the amount of $0.5 million to conduct a comprehensive security assessment study of the its waterfront facilities. In June 2003, the Port was notified that second round funding of $3.5 million was being recommended for certain capital improvements that improve facility and operational security at the Port's cruise, ferry and cargo facilities. The Port of San Francisco also participates in a regional Port Security Committee, which reviews security issues and needs affecting ports and terminals in the San Francisco Bay Area.

Requests for Information

This report is designed to provide a general overview of the Port of San Francisco's finances. The financial statements and related informative disclosures in the notes to the financial statements and required supplementary information is presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles." Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Information Officer or the Fiscal Officer at Pier 1, San Francisco, California, 94111.

Questions concerning the City and County of San Francisco or requests for a copy of the City's Comprehensive Annual Report should be addressed to:

Office of the Controller
City and County of San Francisco
City Hall, Room 316
#1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Port Commission
City and County of San Francisco
Port of San Francisco

Balance Sheet (In Thousands)

June 30,	2003	2002
Assets		
Current Assets:		
Cash and investments, held in City Treasury - Port operating fund	$ 52,842	$ 59,584
Cash outside City Treasury	9	5
Receivables - net	4,173	5,005
Materials and supplies	1,193	1,153
Prepaid insurance and other assets	1,322	1,148
Total current assets	59,539	66,895
Restricted Assets:		
Cash held in City Treasury:		
Lessee deposits	3,192	3,116
Capital outlay	667	889
Bond interest and redemption held by trustee	9,896	9,802
Capital outlay funds held by escrow agent	671	5,992
Other - Lessee deposits	793	1,007
Total restricted assets	15,219	20,806
Capital Assets - net	247,655	243,632
Other Assets	8,059	8,672
Total assets	$ 330,472	$ 340,005
Liabilities		
Current Liabilities Payable from Current Assets:		
Accounts payable and accrued liabilities	$ 16,269	$ 14,285
Current maturities of long-term obligations	518	1,315
Accrued interest payable	149	157
Total current liabilities	16,936	15,757
Current Liabilities Payable from Restricted Assets:		
Current maturities of revenue bonds	3,595	3,405
Accrued bond interest payable	940	1,036
Lessee deposits	3,985	4,123
Deferred grants	145	16
Total payable from restricted assets	8,665	8,580
Noncurrent Liabilities	3,571	3,101
Deferred Revenue - Net of current portion	2,959	3,808
Long-term Obligations - Net of current maturities	30,269	34,267
Total liabilities	62,400	65,513
Net Assets:		
Invested in capital assets, net of related debt	222,211	213,399
Restricted	2,128	6,201
Unrestricted	43,733	54,892
Total net assets	268,072	274,492
Total liabilities and net assets	$ 330,472	$ 340,005

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)

Years Ended June 30,	2003	2002
Operating Revenues:		
Commercial and industrial	$ 32,037	$ 32,482
Parking	7,466	7,380
Cargo	5,659	3,797
Fishing	1,554	1,488
Ship repair	919	1,000
Harbor services	967	915
Cruise	963	459
Other maritime	1,413	1,445
Other	3,489	1,528
Total operating revenues	54,467	50,494
Operating Expenses:		
Operations and maintenance	50,103	47,759
Depreciation and amortization	8,655	8,119
Total operating expenses	58,758	55,878
Operating loss	(4,291)	(5,384)
Other Income (Expense):		
Interest and investment income	1,774	3,246
Interest expense	(2,316)	(2,816)
Gain from fire insurance settlement	394	8,774
Loss from disposition of assets	(2,707)	(1,659)
Total nonoperating revenues and expenses	(2,855)	7,545
Capital Contributions - Capital grants and other contributions	726	2,747
Change in Net Assets	(6,420)	4,908
Net Assets - beginning of the year	274,492	269,584
Net Assets - end of the year	$ 268,072	$ 274,492

The accompanying notes are an integral part of this statement.

Port Commission
City and County of San Francisco
Port of San Francisco

Statement of Cash Flows (In Thousands)

Years Ended June 30,	2003	2002
Cash Flows from Operating Activities:		
Cash received from tenants for rent	$ 43,998	$ 44,153
Cash received from customers	7,006	5,330
Deposits received from tenants and customers	280	623
Cash paid to employees for services	(19,995)	(19,912)
Cash paid to suppliers for goods and services	(9,606)	(10,156)
Cash paid for quasi-external transactions	(9,665)	(10,018)
Customer deposits returned	(205)	(364)
Net cash provided by operating activities	11,813	9,656
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of property, plant and equipment	(14,448)	(14,074)
Dredging	(3,380)	(1,395)
Capital grants received	1,145	3,123
Proceeds from loan		1,098
Contributed capital other than from grants	437	530
Net insurance proceeds from fire casualties		8,748
Principal payments on long-term debt	(4,720)	(13,344)
Interest payments on long-term debt	(2,253)	(2,367)
Recovery and repair of surplus drydock	(1,716)	
Pier demolition and other asset disposition costs	(892)	(851)
Installation of water main transferred to PUC		(549)
Interest expense capitalized		(9)
Proceeds from sale of materials	20	
Net cash used by capital and related financing activities	(25,807)	(19,090)
Cash Flows from Investing Activities:		
Interest income received	2,083	3,172
Investments sold by Trustee	5,359	
Net cash provided by investing activities	7,442	3,172
Net Decrease in Cash and Cash Equivalents	(6,552)	(6,262)
Cash and Cash Equivalents - Beginning of year	73,270	79,532
Cash and Cash Equivalents - End of year	$ 66,718	$ 73,270

The accompanying notes are an integral part of this statement.

Statement of Cash Flows (In Thousands)
(Continued)

Years Ended June 30,	2003	2002
Noncash Capital and Related Financing Activities:		
Building (tenant) improvements financed by rent credits		$ 375
Acquisition and construction of property, plant and equipment included in accounts payable and accrued liabilities	$ 473	1,485
Loss on abandonment of property and equipment	119	259
Noncash Investing Activities:		
Change in fair value of cash and investments held in City Treasury	$ (200)	$ 174
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating loss	$ (4,291)	$ (5,384)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,655	8,119
Change in allowance for doubtful accounts	365	1,118
Net change in deferred revenue	(831)	573
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	25	395
Materials and supplies	(40)	(2)
Prepaid insurance and other assets	3,766	2,050
Increase (decrease) in:		
Accounts payable and accrued liabilities	4,088	2,954
Lessee deposits	76	(167)
Net cash provided by operating activities	$ 11,813	$ 9,656
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:		
Cash and investments held in City Treasury - Port operating fund	$ 52,842	$ 59,584
Cash deposit outside of City Treasury	9	5
Cash held in City Treasury:		
Lessee deposits	3,192	3,116
Capital outlay	667	889
Cash held by escrow agent	671	5,992
Cash held by Trustee - Bond interest and redemption (see Note 2)	9,896	4,443
	67,277	74,029
Change in fair value of cash and investments held in City Treasury	(559)	(759)
Cash and Cash Equivalents	$ 66,718	$ 73,270

The accompanying notes are an integral part of this statement.

Note 1 - Significant Accounting Policies:

a. Basis of Presentation:

The Port of San Francisco (Port) is an enterprise fund of the City and County of San Francisco (City). Only the accounts of the Port are included in these financial statements. There are no component units that should be considered for inclusion in the Port's financial reporting entity.

A five-member Port Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included as a component of the City's Comprehensive Annual Financial Report.

Prior to February 1969, the Port was owned by the State of California ("State") and administered by the San Francisco Port Authority, a State agency. In February 1969, the Port was transferred in trust to the City under the terms and conditions specified in the State statutes of 1968, Chapter 1333 ("Burton Act"), as amended, and ratified by the City's voters in November 1968.

Under the terms of the Burton Act, the State Legislature reserved the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust, provided that the State would then assume all lawful obligations related to such lands.

The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Substantially all of the Port's property rental customers are located within the boundaries of the City.

The Port's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Port applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In accordance with GASB Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," the balance sheet presents the difference between assets and liabilities as net assets. Net assets are reported in three broad components, as applicable – invested in capital assets, net of related debt; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net assets, all Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net assets.

b. Cash and Investments

The Port reports its investments at fair value based upon quoted market prices. Fair value is defined as the amount that the Port could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short term investments are reported at cost (or amortized cost), which approximates fair value. For purposes of the statement of cash flows, all unrestricted and restricted cash and highly liquid investments with maturities of three months or less, when purchased, are considered to be cash equivalents. In addition, the Port considers its deposits with the City Treasurer (see Note 2) to be demand deposits and therefore cash for the purposes of the statement of cash flows.

c. Materials and Supplies

Materials and supplies are used for construction and maintenance of Port facilities and are stated at average cost.

d. Restricted Assets

Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. A bond trustee holds these funds.

Capital outlay funds are restricted for use in construction and acquisition of equipment, due to restrictions from federal and state grant agreements and bond resolutions. A bank escrow agent holds certain insurance settlement proceeds received for the seismic upgrade of a pier.

e. Capital Assets

Land transferred to the City in February 1969 is stated at an amount which includes an increase over historical cost of $56,063,000. This amount was recorded by the State in prior years to reflect appraised values in 1929.

Other property, plant and equipment is carried at cost or at fair market value at the date received in the case of property received by donation or by termination of a lease. Donated surplus equipment received from the federal government is carried at an estimated value determined in accordance with federal guidelines. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. Land improvements (principally pavement and pier promenades) with a cost of approximately $19 million are not depreciated because, in the opinion of management, the assets will be maintained to provide indefinite useful lives. Building (tenant) improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the related lease. Maintenance and repairs are expensed as incurred.

Interest paid on bond funds used for construction purposes, less interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, if applicable, is capitalized from the date of borrowing through the construction period.

f. Other Assets

Bond issue costs are amortized using the straight-line method over the life of the bond. Original bond issue premiums are offset against the related debt and amortized using the straight-line method over the life of the bonds.

Loan issue costs are amortized using the straight-line method over the outstanding term of the loan.

Dredging costs are amortized using the straight-line method over the estimated useful period ranging from one to seven years.

Waterfront Land Use Plan (Plan) costs are amortized using the straight-line method over an estimated life of 20 years. The Plan was approved by the City Board of Supervisors in September 1997.

g. Deferred Revenue

Deferred revenue consists primarily of rent credits issued to customers. Deferred revenue is recognized in accordance with the lease agreements and is amortized using the straight-line method over the term of the specific leases.

h. Refunding Debt

The Port's revenue bonds were refunded in 1994 (see Note 8). The difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a reduction of the bonds payable. The amount is being amortized on a straight-line basis over 15 years.

i. Capital Contributions

The Port, at various times, receives federal and state grants and funds from other external sources for construction of waterfront facilities. The funds are reported as capital contributions on the Statement of Revenues, Expenses and Changes in Net Assets.

j. Environmental Expenses

The Port incurs costs associated with environmental clean-up which arise during the normal course of business. These costs are recorded as a liability when the Port is required to perform the cleanup and the costs can be reasonably estimated.

k. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments:

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments as part of the City's pool of cash and investments. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of risk associated with the City's pooled cash and investments.

Cash and investments, reported at fair value, at June 30, 2003 and 2002 are as follows (in thousands):

	2003	2002
Cash and investments with City treasury	$ 52,842	$ 59,584
Cash outside City treasury	9	5
Restricted assets:		
Cash and investments with City treasury	3,859	4,005
Deposits and investments outside City treasury:		
Cash and investments held by bond trustee	9,896	9,802
Cash and investments held by escrow agent	671	5,992
Lessee deposits	739	859
	$ 68,016	$ 80,247

Cash deposits consist of the following (in thousands):

	June 30, 2003		June 30, 2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Federally insured deposits	$ 668	$ 667	$ 788	$ 787
Uninsured and uncollateralized deposits	76	76	76	76
	$ 744	$ 743	$ 864	$ 863

Lessee security deposits are held on behalf of the Port by third party trustees and invested in renewable certificates of deposit. Two security deposit accounts have bank balances that exceed the federal insurance limit.

At June 30, 2003 and 2002, cash and investments held in reserve and for debt service payments by trustee consist of:

	2003	2002
	(in thousands)	
Reserve Fund:		
U.S. Treasury Obligation Fund	$ 5,361	$ 2
U.S. Treasury Note		5,198
Accrued Interest		161
Debt Service Funds:		
U.S. Treasury Obligation Fund	4,535	4,441
	$ 9,896	$ 9,802

Investments, other than the U.S. Treasury Note, may be withdrawn on demand and meet the criteria of cash or cash equivalent for cash flow statement purposes.

All investments held by the bank escrow agent are in a money market mutual fund.

Note 3 - Receivables:

At June 30, 2003 and 2002, receivables consisted of:

	2003	2002
	(in thousands)	
Trade accounts receivable	$ 4,635	$ 3,931
Less allowance for doubtful accounts	(1,750)	(1,385)
	2,885	2,546
Accrued income and other amounts due from tenants		1,083
Grants receivable	439	863
Insurance proceeds receivable	420	26
Accrued interest receivable	371	480
Other	58	7
	$ 4,173	$ 5,005

Note 4 - Capital Assets:

At June 30, 2003 and 2002, capital assets consisted of:

	2003	2002	Estimated Useful Life (Years)
	(in thousands)		
Land and land improvements	$ 119,512	$ 119,512	
Buildings, structures and related improvements	250,121	249,828	5 - 59
Furniture, machinery and equipment	12,877	11,480	2 - 20
Total	382,150	380,820	
Less accumulated depreciation	(157,564)	(155,972)	
	224,946	224,848	
Construction work in progress	22,709	18,784	
Total	$ 247,655	$ 243,632	

Total interest cost was $2,149,000 and $2,405,000 for fiscal years 2003 and 2002, of which $0 and $9,000 was capitalized, respectively. Total interest earned was $1,965,000 and $3,072,000 for fiscal years 2003 and 2002, of which $0 was capitalized in 2003 and 2002.

Buildings, structures and improvements include pier substructures, which have an estimated useful life greater than 50 years. Such long-lived assets total $21,915,000 and $20,226,000 as of June 30, 2003 and 2002, respectively.

The cost of fully depreciated assets still in use was approximately $76,391,000 at June 30, 2003.

Note 5 - Other Assets:

Other assets at June 30, 2003 and 2002, net of related amortization, consisted of:

	2003	2002
	(in thousands)	
Deferred debt and loan issue costs	$ 317	$ 370
Dredging costs	5,238	5,600
Waterfront land use plan	2,350	2,540
Other deferred costs	154	162
	$ 8,059	$ 8,672

Note 6 - Accounts Payable and Accrued Liabilities:

At June 30, 2003 and 2002, accounts payable and accrued liabilities consisted of:

	2003	2002
	(in thousands)	
Accounts payable	$ 2,396	$ 1,981
Due to City General Fund (Note 11)	2,000	
Current portion of deferred revenue	5,171	5,792
Accrued liabilities	4,233	4,164
Accrued payroll, compensated absences and related costs	2,469	2,348
	$ 16,269	$ 14,285

Note 7 - Noncurrent Liabilities:

At June 30, 2003 and 2002, noncurrent liabilities consisted of:

	2003	2002
	(in thousands)	
Compensated absences and related costs	$ 884	$ 844
Workers' compensation	2,287	1,857
Litigation, claims and judgments	400	400
	$ 3,571	$ 3,101

Note 8 - Long-Term Obligations:

Long-term obligations at June 30, 2003 and 2002 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2003	Balance 2002
			(in thousands)	
Revenue bonds	5.20 - 9.00	2010	$ 30,004	$ 33,295
General obligation bonds	4.50 - 6.30	2003 - 2005	800	2,000
Loan payable	4.50	2029	3,510	3,584
Capital lease	6.31	2005	68	108
Total long-term obligations			34,382	38,987
Less current maturities			(4,113)	(4,720)
Net long-term obligations			$ 30,269	$ 34,267

The following is a summary of changes in long-term obligations for the years ended June 30, 2003 and 2002 (in thousands):

	Revenue Bonds	General Obligation Bonds	Loans	Capital Lease	Total
Balances as of June 30, 2001	$ 36,416	$ 3,200	$ 11,186	$ 147	$ 50,949
Additional obligations			1,098		1,098
Current maturities, retirements and other decreases	(3,121)	(1,200)	(8,700)	(39)	(13,060)
Balances as of June 30, 2002	33,295	2,000	3,584	108	38,987
Current maturities, retirements and other decreases	(3,291)	(1,200)	(74)	(40)	(4,605)
Balances as of June 30, 2003	$ 30,004	$ 800	$ 3,510	$ 68	$ 34,382

The annual requirements to amortize all outstanding long-term obligations are as follows (in thousands):

	Bonds	Loan	Capital Lease	Total
Year Ending June 30:				
2004	$ 5,764	$ 232	$ 47	$ 6,043
2005	5,794	232	25	6,051
2006	5,361	232		5,593
2007	5,355	232		5,587
2008	5,342	232		5,574
2009 – 2013	10,657	1,158		11,815
2014 – 2018		1,159		1,159
2019 – 2023		1,158		1,158
2024 – 2028		1,158		1,158
2029		232		232
Total debt service	38,273	6,025	72	44,370
Less - interest	(7,469)	(2,515)	(4)	(9,988)
Total liability - June 30, 2003	$ 30,804	$ 3,510	$ 68	$ 34,382

Bonds

Bond obligations at June 30, 2003 and 2002 consisted of the following:

	Interest Rate (%)	Fiscal Year Last Series Matures	Balance 2003 (in thousands)	Balance 2002 (in thousands)
General Obligation Bonds:				
City and County of San Francisco - Harbor Improvement 1971:				
Series A	4.50	2003	$	$ 800
Series B	6.30	2005	800	1,200
Total General Obligation Bonds			800	2,000
Revenue Bonds:				
Series 1994	5.20 - 9.00	2010	30,690	34,095
Total Revenue Bonds			30,690	34,095
Total Bond Obligations			31,490	36,095
Less:				
Current maturities			(3,995)	(4,605)
Unamortized Revenue Bond Series 1994 bond premium			260	303
Deferred amount on refunding			(946)	(1,103)
Net Bond Obligations			$ 26,809	$ 30,690

In 1994, the Port issued $53,610,000 in Revenue Refunding Bonds, Series 1994 with an average interest rate of 5.8 percent to refund $49,975,000 of outstanding 1984 Revenue Bonds, Series A, B and C with an average interest rate of 8.4 percent.

The refunding resulted in a difference between the reacquisition price (principal of the old debt plus call premium) and the net carrying amount of the old debt of $2.36 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2010 using the straight line method.

Under the terms of the Revenue Refunding Bonds, Series 1994 Indenture, the Port is required to deposit with a trustee in a reserve fund, an amount equal to the lesser of (a) maximum debt service accruing in any year during the life of such bonds, (b) ten percent (10%) of the proceeds derived from the sale of Series 1994 Bonds, or (c) 1.25 times the average annual debt service due with respect to Series 1994 Bonds. At June 30, 2003, the Port was in compliance with this bond indenture requirement.

While Series 1994 Bonds are outstanding, the Port may not create liens on its property essential to operations, dispose of any property essential to maintaining revenues or operating the Port, and must maintain specified insurance. The Port may issue additional bonds under the 1994 Indenture provided the Port complies with the Additional Bonds Test, as defined in the indenture.

Covenants of the 1994 Indenture include that the Port will maintain its business operations, and establish, and maintain rentals, rates, fees, and charges for the use of Port property and for services rendered by the Port so that the Net Revenue, as defined in the bond indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2003, the Port was in compliance with such bond covenants.

The revenue bonds are secured by a pledge of Net Revenues of the Port, as defined by the bond indenture. Certain general obligation bonds issued by the City are subordinated to the revenue bonds and any future senior lien revenue bonds.

The Series 1994 Revenue Bonds are subject to an arbitrage rebate requirement. The requirements stipulate, in general, that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. Estimated arbitrage liability was $139,000 and $88,000 as of June 30, 2003 and 2002, respectively.

Loans

The Port has entered into a loan agreement with a State Agency for $3.5 million to finance a certain capital project. The loan is subordinate to all bonds payable by the Port. Interest accrues at a rate of 4.5% per annum on the unpaid balance commencing with the first draw on the loan. The term is 30 years from the date of the first draw, which occurred in April 1998. The loan is secured by Gross Revenues as defined in the loan agreement. The project was completed as scheduled in 2002 and annual payments commenced on August 1, 2002.

	2003	2002
	(in thousands)	
Loan payable to State Agency, including deferred interest of $84,000	$ 3,510	$ 3,584
Less current portion	(74)	(74)
Net loan payable	$ 3,436	$ 3,510

In 1998, Port entered into a commercial loan agreement for $12 million to finance certain capital projects. The entire balance outstanding of $8,700,000 was paid off on July 2, 2001. The loan was subordinate to all bonds payable by the Port. The loan interest rate (5.68% at July 2, 2001) adjusted with the LIBOR rate. The loan was secured by a lien on and security interest in Net Revenue as defined in the loan agreement. Covenants of the loan agreement include that the Port maintain its business operations, and establish, and maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port so that Net Revenue, as defined in the loan agreement, less the annual debt service on the Revenue and City Bonds in each fiscal year will be at least equal to 115% of aggregate annual debt service for such fiscal year. The Port was in compliance with such loan covenants through the pay-off date.

Capital Lease

In 1999, the Port entered into a lease purchase agreement for certain equipment. This lease arrangement is accounted for as a capital lease. At June 30, 2003, equipment under this lease arrangement totaled approximately $200,000 and accumulated amortization on those assets at June 30, 2003 and 2002 totaled $102,000 and $70,000, respectively.

Note 9 - Operating Revenues - Property Rentals:

Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. Property rental revenues were comprised as follows:

	2003	2002
	(in thousands)	
Minimum rentals	$ 37,710	$ 37,735
Percentage rentals	7,148	6,502
	$ 44,858	$ 44,237

Minimum future rental income under noncancellable operating leases having terms in excess of one year are as follows:

Year Ending June 30	(in thousands)
2004	$ 26,726
2005	23,790
2006	19,930
2007	18,488
2008	17,796
Thereafter	403,713
Total	$ 510,443

The approximate cost of property subject to operating leases and property held for lease at June 30, 2003 consisted of:

	(in thousands)
Land and land improvements	$ 52,552
Buildings, structures, and related improvements at cost, less accumulated depreciation of $136,819	53,208
Total	$ 105,760

Note 10 - Employee Benefit Plans:

a. Retirement Plans

City and County of San Francisco

Plan Description - The City has a single-employer defined benefit retirement plan (the Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the Port along with other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102 or by calling (415) 487-7020.

Funding Policy - Contributions are made to the basic plan by both the Port and its employees. Employee contributions are mandatory. Employee contribution rates for 2003 and 2002 varied from 7.0% to 8.0% as a percentage of covered payroll. The Port is required to contribute at an actuarially determined rate. No Port contributions were required for 2003 and 2002 as the actuarially determined contribution rate as a percentage of covered payroll was 0%. The Port's contributions to the Retirement System on behalf of its employees amounted to $908,000, $1,210,000 and $1,143,000 for the years ended June 30, 2003, 2002 and 2001, respectively. Due to certain bargaining agreements effective in 2003 which mandated certain groups of employees to contribute 2.75% of covered payroll as employee-paid employee contributions, the Port's contributions to the Retirement System on behalf of such employees were reduced to 4.25% to 5.25% for 2003. For those groups of employees not mandated to contribute to the Retirement System, the Port's contributions remained at 7.0% to 8.0% of covered payroll. The Port's contributions in 2002 and 2001 were equal to the required employee contributions.

State of California

Plan Description - The Port also contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. Certain employees who commenced their employment at the Port prior to February 1969 are eligible to participate in PERS. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy - Participating employees are required to contribute 7 percent of their salary to PERS. The Port is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by PERS actuaries and actuarial consultants and adopted by the Board of Administration.

There were no contributions required in 2003, 2002 and 2001. The City's Comprehensive Annual Financial Report contains disclosures for all covered City employees. Amounts for the Port are not separable from the City totals.

b. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", Plan assets and related liabilities to Plan participants are not included in the City's financial statements. The City has no fiduciary accountability for the Plan. It has no administrative involvement and does not perform the investing function.

The amounts deferred by Port employees totaled $1,038,000, $934,000, and $888,000 for 2003, 2002 and 2001, respectively.

c. Health Care Benefits

Health care benefits of Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port's contribution, which amounted to approximately $742,000, $637,000 and $554,000 in fiscal years 2003, 2002 and 2001, respectively, is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The cost of providing benefits for the retirees is not separable from the cost of providing benefits for the active employees. The Port's liability for both current employee and post retirement health care benefits is limited to its annual contribution.

d. Wellness Incentive Program

Effective July 1, 2002, the City established, on a pilot basis, a Wellness Incentive Program (the Program) to promote workforce attendance. Under the Program, any full-time employee leaving employment of the City upon service or disability retirement may receive payment for a portion of accrued sick leave credits at the time of separation. The amount of this payment is based on two and one-half percent of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, is not included in this computation. The pilot program extends through June 30, 2005 and the estimated future payments under the Program are included in the accrued liabilities disclosed in Notes 6 and 7.

Note 11 - Related Party Transactions:

The Port receives services from, and provides services to, various City departments. The cost of services received, included as operating expenses in the financial statements, was approximately $11,665,000 in 2003 and $10,018,000 in 2002.

An outside consultant has been engaged to review the balance of payments between the Port and City ("nexus study"). The nexus study was in progress at June 30, 2003. At June 30, 2003, accrued liabilities include $2,000,000 due to the City's General Fund for additional reimbursable service costs. This accrued expense is based on preliminary data gathered for the nexus study. Cost reimbursements from the Port to the City must follow the legal restrictions contained in the State transfer agreement and the Burton Act. The nexus study will establish a record of past expenditures and should provide a systematic means for determining the balance of payments for future periods.

Services provided, included in operating revenue, amounted to approximately $4,178,000 and $4,195,000 in 2003 and 2002, respectively. Receivables relating to such transactions are disclosed in Note 3. Under a guaranteed payment agreement for parking fine revenues collected from Port property, the Port received $1.2 million from the Department of Parking and Traffic in 2003 and 2002.

Note 12 - Dry Dock # 1:

In November 2002, a maritime vessel known as Dry Dock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The Port entered into emergency contracts to recover the dry dock vessel and to complete certain repairs to restore and maintain its watertight condition. The Port is evaluating options for the final disposition of this surplus vessel. During the fiscal year ended June 30, 2003, $1,716,000 was expended for the recovery and repairs.

Note 13 - Fire Insurance Proceeds:

On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower. Insurance was in force to cover fire damage to the Port's property at Pier 48 and Pier 43. The gain recognized as other income in the Statement of Revenues, Expenses and Changes in Net Assets represents proceeds received or receivable for construction repair in excess of clean-up expenses incidental to the casualty.

In January 2002, the Port and its insurers reached a settlement to resolve disputes regarding coverage for damage caused by the Pier 48 fire and the required construction repairs, including code upgrades. The Port received insurance payments of $6,770,000 for approved repairs. An additional $8,000,000 was placed in an escrow account to fund certain seismic retrofit work. The seismic retrofit work has been completed and final payment was made to the contractor in June 2003. The account residual of $603,000 was released to the Port in July 2003, closing the escrow account.

Through June 30, 2003, the Port has received interim insurance payments of $850,000 for Pier 43. Receivables at June 30, 2003 include an additional $420,000 for approved construction repairs. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled.

Note 14 - Commitments, Litigation and Contingencies:

a. Commitments

The Port is presently planning various development projects which involve a commitment to expend significant funds. The Port had firm purchase commitments at June 30, 2003 for approximately $4,622,000 for capital projects and $3,032,000 for general operations.

Under an agreement with The San Francisco Bay Conservation and Development Commission finalized in 2001 (The San Francisco Waterfront Special Area Plan), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2003 $3,131,000 has been appropriated and $899,000 has been expended for projects under the agreement.

b. Litigation

The Port is a defendant in various lawsuits and claims; most deal with personal injury or property damage resulting from accident or fire and are covered by insurance. In the opinion of counsel the likelihood of an unfavorable outcome is probable in some of the suits and, accordingly, accrued liabilities include the aggregate amount of deductibles under applicable insurance policies. However, a number of the lawsuits are in the discovery stages and counsel to the Port cannot express an opinion as to the possible outcome of such litigation. Port's management believes that the ultimate resolution of such matters is not expected to have a material effect on the Port's financial position or results of operations.

c. Contingencies

Risk Management

The Port is subject to various risks of loss including general liability, property and casualty, workers' compensation and employee health and accident. The Port carries commercial insurance for all risks of loss except workers' compensation and employee health and accident. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not recorded claims, is provided by the City. The workers' compensation liability as of June 30, 2003 and 2002 has been evaluated by an independent actuary.

Changes in the reported liability reserves for 2003 and 2002 resulted from the following activity:

	General Liability		Workers' Compensation	
	2003	2002	2003	2002
	(in thousands)			
Beginning of the year	$ 1,600	$ 311	$ 2,470	$ 1,145
Current year claims and changes in estimate	326	1,390	1,205	1,965
Claim payments	(26)	(101)	(744)	(640)
End of year	$ 1,900	$ 1,600	$ 2,931	$ 2,470

The general liability and workers' compensation liability are included in accrued liabilities in the financial statements.

Grants

Certain grants that the Port receives are subject to audit and final acceptance by the granting agency based upon their review of costs incurred. Port's management does not believe that such audits will have a material impact on the financial statements.

Environmental

In September 2002, the Port received a notice of violation from the California Department of Toxic Substances Control (DTSC) in connection with the presence of approximately 22,000 tons of soil contaminated with soluble lead at concentrations well below those that would pose a risk of to public health, but at concentrations that classify it as hazardous waste in California. A former tenant operated a soil disposal service and abandoned the contaminated soil after declaring bankruptcy in 1995 and ceased operations in 1996. The tenant was not regulated as a hazardous waste facility. The soil had been tested by the Port to identify potential reuse or disposal options. In January 2003, the Port completed removal of the soil to an appropriate out-of-state landfill with DTSC approval. The total cost of soil removal and related expenses were approximately $1.6 million.

The Port has identified certain other environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination. The Port may be required to perform certain clean up work if it intends to develop or lease the property, or at such time as required by the city or state. The Port projects currently estimable testing and remediation costs to be in the range of $0.1 million to $0.3 million. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for such risk cannot be reasonably made at this time.

The Port has one pier site that is a regulated landfill under a closure order from the California Regional Water Quality Control Board (RWQCB). A revised closure order adopted by the RWQCB in June 2003 requires the Port to conduct limited groundwater monitoring for one year, permits much of the site to remain unpaved, and allows for a broad range of development on portions of the landfill that are currently undeveloped. Site specific project plans must be reviewed and approved by the RWQCB. The estimated cost to close the landfill site in compliance with the original closure order was previously estimated at $3.0 million.

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